

MONTGOMERY COUNTY MARYLAND

Comprehensive Annual Financial Report



Fiscal Year 2003

July 1, 2002 - June 30, 2003
Rockville, Maryland

MONTGOMERY COUNTY MARYLAND

Comprehensive Annual Financial Report



Prepared by the
DEPARTMENT OF FINANCE

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Fiscal Year 2003
July 1, 2002 - June 30, 2003



Montgomery County, Maryland
COMPREHENSIVE ANNUAL FINANCIAL REPORT
Fiscal Year Ended June 30, 2003
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FINANCIAL SECTION



KPMG LLP
2001 M Street, NW
Washington, DC 20036

Independent Auditors' Report

The Honorable County Council
Of Montgomery County, Maryland:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Montgomery County, Maryland (the County), as of and for the year ended June 30, 2003, which collectively comprise the County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the County's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Montgomery County Public Schools, the Montgomery Community College, the Montgomery County Revenue Authority, and the Bethesda Urban Partnership, Inc., which represent 63% and 91%, respectively, of total assets and revenues of the aggregate discretely presented component units. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion on the County's aggregate discretely presented component units financial statements, insofar as it relates to the amounts included for those discretely presented component units, is based solely on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of the other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Montgomery County, Maryland, as of June 30, 2003, and the respective changes in financial position and cash flows, where applicable, thereof and the budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis on pages 3 through 19 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the County's basic financial statements. The combining and individual fund financial statements and supplementary schedules listed as supplementary data in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The supplementary data has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, based on our audit and the reports



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of the other auditors, is fairly stated in all material respects in relation to the basic financial statements taken as a whole. The information included in the introductory and statistical sections has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we express no opinion on such information.

In accordance with *Government Auditing Standards*, we have also issued a report dated December 11, 2003 on our consideration of the County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

KPMG LLP

December 11, 2003

Management's Discussion and Analysis

INTRODUCTION

This discussion and analysis (MD&A) is designed to a) assist readers in understanding Montgomery County, Maryland's (the County's) basic financial statements, the relationship of different types of statements, and the significant differences in the information they provide; b) assist the reader in focusing on significant financial issues; c) provide an overview of the County's current financial activity; d) identify changes in the County's financial position, i.e., its ability to address the next and subsequent year's financial needs, based on currently known facts; e) identify any material deviations from the approved budget for the fiscal year, and f) identify individual fund issues or concerns. The MD&A is best understood if read in conjunction with the Transmittal Letter and the County's basic financial statements.

FINANCIAL HIGHLIGHTS

- The government-wide assets of the County exceeded its liabilities at the close of FY03 by \$1,584.2 million. That amount is net of a \$443.3 million unrestricted deficit. The deficit occurs because the County issues debt to fund construction costs for Montgomery County Public Schools (MCPS) and Montgomery Community College (MCC), two of its component units, and for Maryland-National Capital Park and Planning Commission (M-NCPPC), a joint venture. Debt outstanding for these entities amounted to \$809.2 million at June 30, 2003. Absent the effect of this relationship, the County would have reported government-wide positive unrestricted net assets \$365.9 million.
- The County's total government-wide net assets decreased by \$80.8 million.
- As of the close of FY03, the County's governmental funds reported combined ending fund balances of \$380.3 million, a decrease of \$138.5 million over the prior year's ending fund balances. Of the total ending fund balances, \$78.0 million is available for spending at the County's discretion.
- At the end of FY03, unreserved undesignated fund balance for the General Fund was \$34.6 million, or 4.2 percent of total General Fund expenditures.
- The County's government-wide long-term debt increased by \$49.1 million during FY03. The key factors in this increase are:
 - The issuance of: \$155.0 million in general obligation (GO) bonds, \$93.6 million in GO refunding bonds, \$31.1 million in revenue refunding bonds, and \$11.8 million in capital leases.
 - The retirement of: \$202.9 million in GO bonds (including \$95.8 million refunded), \$39.2 million in revenue bonds (including \$31.8 million refunded), and \$12.0 million in certificates of participation.GO and revenue bonds were refunded in order to save \$6.7 million (\$4.4 million GO and \$2.3 million revenue bonds) in future debt service payments.

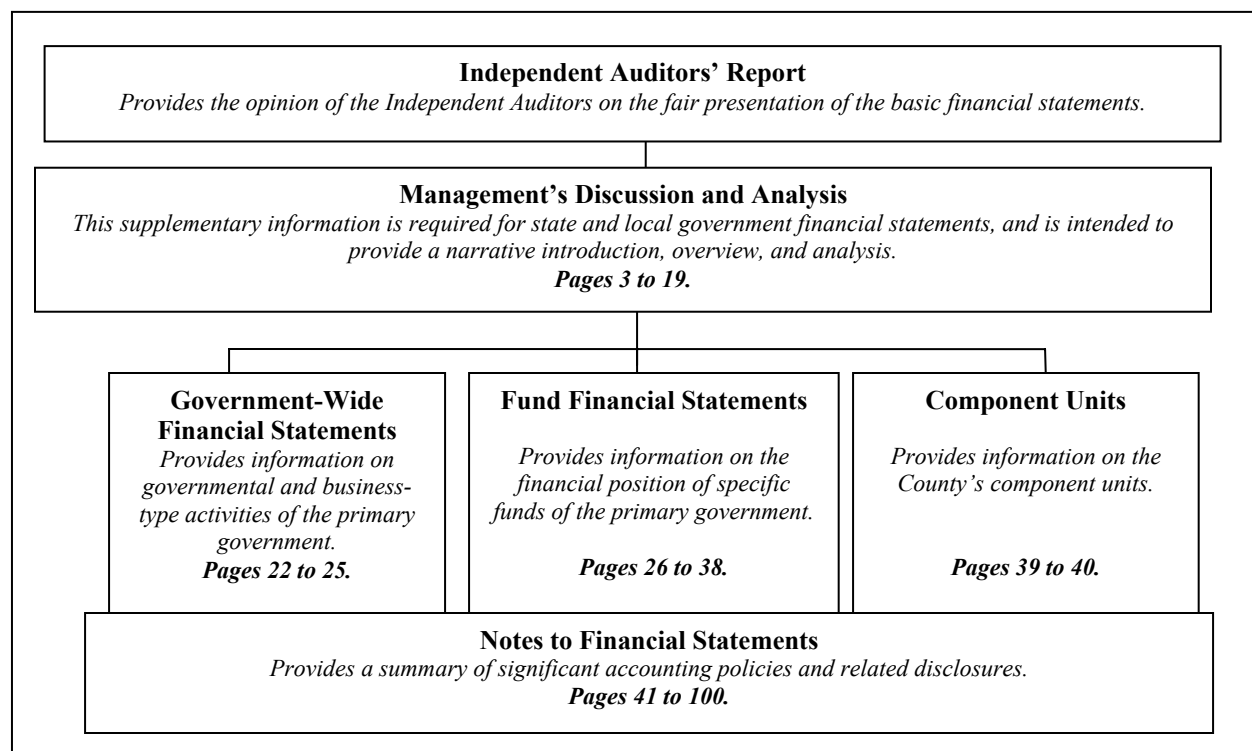
OVERVIEW OF THE FINANCIAL STATEMENTS

The County's financial statements focus on both the County as a whole (government-wide), and on the major individual funds. "Funds" are resources segregated for the purposes of implementing specific activities or achieving certain objectives in accordance with special regulations, restrictions, or limitations. Both the government-wide and fund perspectives allow users to address relevant questions and understand changes in financial conditions. The structure of the financial statements is presented below.

This MD&A is intended to be an introduction to Montgomery County's basic financial statements. Montgomery County's basic financial statements comprise three components, including government-wide financial statements,

fund financial statements, and notes to financial statements. This report also contains other supplementary information in addition to the basic financial statements.

Organization and Flow of Financial Section Information



Government-Wide Financial Statements

The government-wide financial statements are designed to be corporate-like in that all governmental and business-type activities are reported in columns which add to a total for the primary government. The focus of the statement of net assets is designed to provide bottom line results for the County's governmental and business-type activities. This statement reports governmental funds' current financial resources (i.e., short-term spendable resources) with capital assets and long-term obligations. All infrastructure assets built or purchased by the County, and infrastructure dedicated by developers since 1970, are included in the accompanying government-wide financial statements. The difference between the County's assets and liabilities is reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial health of the County is improving or deteriorating. Additionally, nonfinancial factors, such as a change in the County's property tax base or the condition of County facilities and infrastructure, should be considered to assess the overall health of the County.

The statement of activities is focused on both the gross and net cost of various functions, including governmental and business-type activities. This is intended to summarize and simplify the users' analysis of the cost of various governmental services and/or subsidy to various business-type activities. The governmental activities included reflect the County's basic services, including general government, public safety, public works and transportation, health and human services, and others. Taxes, including the property and income tax, license and permit fees, intergovernmental revenues, charges for services, fines and forfeitures, and investment income finance the majority of these services. The business-type activities reflect private sector-type operations, including: liquor control, solid waste disposal and collection, four parking lot districts, permitting services, and community use of public facilities, where fees for services or products are required or designed to recover the cost of operation, including depreciation.

The government-wide financial statements include not only the County itself (known as the Primary Government), but also legally separate entities known as Component Units. Component units, which are other governmental units over which the County Council can exercise influence and/or may be obligated to provide financial subsidy, are presented as a separate column in the government-wide statements and as individual activities in the basic and fund financial statements. The County has five component units – Montgomery County Public Schools (MCPS), Housing Opportunities Commission (HOC), Montgomery Community College (MCC), Montgomery County Revenue Authority (MCRA), and Bethesda Urban Partnership, Inc. (BUPI).

Fund Financial Statements

Traditional users of governmental financial statements may find the fund financial statement presentation more familiar. Funds are accounting devices that the County uses to keep track of specific sources of funding and spending for particular purposes. The County uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. In the fund financial statements, the focus is on major funds rather than the County as a whole. Major funds are separately reported while all others are combined into a single, aggregated presentation. The County has the following three types of funds:

Governmental Funds – Most of the County’s basic services are included in governmental funds, which focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out, and (2) the balances remaining at year-end that are available for spending. The governmental funds financial statements provide a detailed short-term view that helps the reader determine whether there are more or fewer financial resources that can be spent in the near future to finance the County’s programs. Because this information does not encompass the additional long-term focus of the government-wide financial statements, a reconciliation of the fund financial statements to the government-wide financial statements is presented immediately after the fund financial statements. For example, the fund financial statements will reflect bond proceeds and interfund transfers as other financing sources as well as capital expenditures and bond principal payments as expenditures. The reconciliation will reflect the elimination of these transactions and will incorporate the capital assets and long-term obligations (bonds and others) that are presented in the governmental activities column (in the government-wide statements). The County has three major governmental funds – General, Debt Service, and Capital Projects – and 17 nonmajor funds (16 special revenue funds and one permanent fund).

Proprietary Funds – Proprietary funds, which consist of enterprise funds and internal service funds, are used to account for operations that are financed and operated in a manner similar to private business enterprises in which costs are recovered primarily through user charges. Proprietary fund financial statements, like the government-wide financial statements, provide both long-term and short-term financial information. The fund financial statements provide more detail and additional information, such as cash flows, for the County’s enterprise funds. The County has three major enterprise funds – liquor control, solid waste disposal and collection, and parking lot districts – and two nonmajor funds. The internal service funds, which are presented in a single, aggregated column in the proprietary fund financial statements, are used to account for the provision of liability and property insurance coverage, employee health benefits, motor pool services, and central duplicating services, to County departments on a cost reimbursement basis. Although both the fund and government-wide financial statements provide a long-term and short-term focus, reconciliations between these two sets of statements are still required. This is due to the fact that the excess income/loss for the internal service funds has been redistributed to the customers, including business-type activities; such reconciliations are reflected on the bottom of the proprietary fund financial statements.

Fiduciary Funds – Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the County’s programs. The County’s fiduciary funds consist of pension and other employee benefit trusts, an investment trust, private purpose trusts, and agency funds.

FINANCIAL ANALYSIS OF MONTGOMERY COUNTY, MARYLAND: GOVERNMENT-WIDE FINANCIAL STATEMENTS

A comparative analysis of government-wide financial information is presented below.

Statement of Net Assets

The following presents a summary of the Statements of Net Assets for the County as of June 30, 2003 and 2002:

| Summary of Net Assets * | | | | | | |
|-----------------------------------|-------------------------|-------------------------|--------------------------|-----------------------|-------------------------|-------------------------|
| June 30, 2003 and 2002 | | | | | | |
| | Governmental Activities | | Business-type Activities | | Total | |
| | 2003 | 2002 | 2003 | 2002 | 2003 | 2002 |
| Assets: | | | | | | |
| Current and other assets | \$ 969,369,323 | \$ 1,129,469,059 | \$ 172,415,638 | \$ 182,521,905 | \$ 1,141,784,961 | \$ 1,311,990,964 |
| Capital assets, net | 2,250,576,672 | 2,140,484,901 | 176,919,027 | 165,197,141 | 2,427,495,699 | 2,305,682,042 |
| Total Assets | <u>3,219,945,995</u> | <u>3,269,953,960</u> | <u>349,334,665</u> | <u>347,719,046</u> | <u>3,569,280,660</u> | <u>3,617,673,006</u> |
| Liabilities: | | | | | | |
| Long-term liabilities outstanding | 1,575,665,607 | 1,517,636,253 | 106,358,950 | 115,275,773 | 1,682,024,557 | 1,632,912,026 |
| Other liabilities | 268,707,511 | 287,255,835 | 34,364,029 | 32,505,893 | 303,071,540 | 319,761,728 |
| Total Liabilities | <u>1,844,373,118</u> | <u>1,804,892,088</u> | <u>140,722,979</u> | <u>147,781,666</u> | <u>1,985,096,097</u> | <u>1,952,673,754</u> |
| Net assets: | | | | | | |
| Invested in capital assets, | | | | | | |
| net of related debt | 1,584,549,157 | 1,492,551,254 | 98,603,512 | 78,523,152 | 1,683,152,669 | 1,571,074,406 |
| Restricted | 253,868,311 | 302,725,910 | 90,462,462 | 105,554,109 | 344,330,773 | 408,280,019 |
| Unrestricted (deficit) | (462,844,591) | (330,215,292) | 19,545,712 | 15,860,119 | (443,298,879) | (314,355,173) |
| Total Net Assets | <u>\$ 1,375,572,877</u> | <u>\$ 1,465,061,872</u> | <u>\$ 208,611,686</u> | <u>\$ 199,937,380</u> | <u>\$ 1,584,184,563</u> | <u>\$ 1,664,999,252</u> |
| * Primary Government | | | | | | |

The County's current and other assets decreased by \$170.2 million over FY02. Of that amount, a \$129.8 decrease in equity in pooled cash and investments resulted primarily from the FY03 change (loss) in net assets of \$80.8 million; a \$27.5 decrease in income taxes receivable relates to recent declines in capital gains and meager employment growth in the County.

The County's assets exceeded its liabilities at the close of FY03 by \$1,584.2 million. By far the largest portion of the County's net assets reflects its investment in capital assets (e.g., land, buildings, improvements, furniture and equipment, infrastructure), less any related outstanding debt used to construct or acquire those assets. The County uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the County's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources since the capital assets themselves cannot be used to liquidate these liabilities.

It is also important to note that although counties in the state of Maryland issue debt for the construction of schools, those school buildings are owned by each county's Board of Education. The County also funds projects for MCC and M-NCPPC. Therefore, while the County's financial statements include this outstanding debt, they do not include the capital assets funded by the debt. Debt outstanding for these entities amounted to \$809.2 million at June 30, 2003. Absent the effect of this relationship, the County would have reported government-wide positive unrestricted net assets \$365.9 million.

An additional portion of the County's net assets (\$344.3 million or 22%) represents resources that are subject to restrictions on how they may be used. This amount includes \$87.2 million in net assets restricted for revenue stabilization for periods of economic downturn.

Statement of Activities

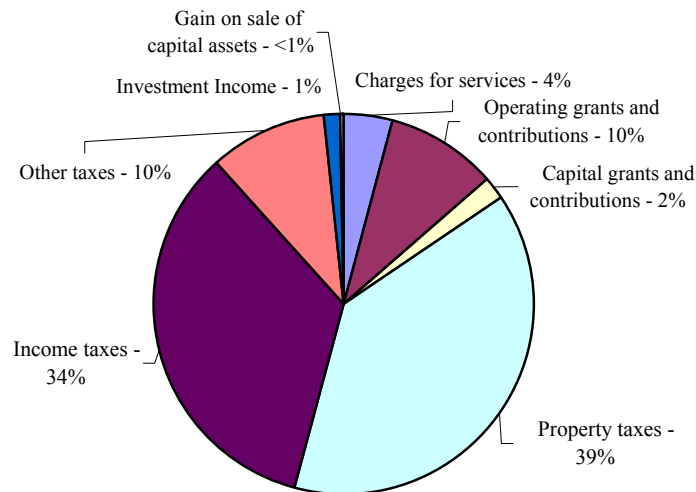
The following table summarizes the County's change in net assets for the years ended June 30, 2003 and 2002:

| Summary of Changes in Net Assets * | | | | | | |
|---|-------------------------|------------------|--------------------------|----------------|------------------|------------------|
| For the Fiscal Years Ended June 30, 2003 and 2002 | | | | | | |
| | Governmental Activities | | Business-type Activities | | Total | |
| | 2003 | 2002 | 2003 | 2002 | 2003 | 2002 |
| REVENUES | | | | | | |
| Program Revenues: | | | | | | |
| Charges for services | \$ 93,376,278 | \$ 84,952,926 | \$ 292,575,741 | \$ 277,711,514 | \$ 385,952,019 | \$ 362,664,440 |
| Operating grants and contributions | 210,945,105 | 201,490,713 | 51,154 | 65,680 | 210,996,259 | 201,556,393 |
| Capital grants and contributions | 37,716,052 | 48,019,121 | - | - | 37,716,052 | 48,019,121 |
| General revenues: | | | | | | |
| Property taxes | 856,439,593 | 811,516,655 | 7,096,856 | 7,018,979 | 863,536,449 | 818,535,634 |
| Income taxes | 757,486,559 | 837,501,501 | - | - | 757,486,559 | 837,501,501 |
| Other taxes | 222,860,308 | 180,643,185 | - | - | 222,860,308 | 180,643,185 |
| Investment Income | 31,489,144 | 40,816,420 | 3,069,224 | 3,889,793 | 34,558,368 | 44,706,213 |
| Gain (loss) on sale of capital assets | 5,433,151 | (4,471,925) | 58,750 | 394,162 | 5,491,901 | (4,077,763) |
| Total Revenues | 2,215,746,190 | 2,200,468,596 | 302,851,725 | 289,080,128 | 2,518,597,915 | 2,489,548,724 |
| EXPENSES | | | | | | |
| Governmental Activities: | | | | | | |
| General government | 206,410,568 | 192,514,175 | - | - | 206,410,568 | 192,514,175 |
| Public safety | 348,701,601 | 309,564,731 | - | - | 348,701,601 | 309,564,731 |
| Public works and transportation | 157,009,091 | 151,932,007 | - | - | 157,009,091 | 151,932,007 |
| Health and human services | 208,820,841 | 197,263,408 | - | - | 208,820,841 | 197,263,408 |
| Culture and recreation | 86,021,724 | 78,147,724 | - | - | 86,021,724 | 78,147,724 |
| Community development and housing | 19,602,595 | 15,894,054 | - | - | 19,602,595 | 15,894,054 |
| Environment | 6,672,833 | 7,331,145 | - | - | 6,672,833 | 7,331,145 |
| Education | 1,225,921,559 | 1,219,512,074 | - | - | 1,225,921,559 | 1,219,512,074 |
| Interest on long-term debt | 66,928,923 | 65,756,461 | - | - | 66,928,923 | 65,756,461 |
| Business-type Activities: | | | | | | |
| Liquor control | - | - | 135,890,772 | 128,793,258 | 135,890,772 | 128,793,258 |
| Solid waste disposal and collection | - | - | 90,633,907 | 89,048,708 | 90,633,907 | 89,048,708 |
| Parking lot districts | - | - | 19,662,075 | 18,488,414 | 19,662,075 | 18,488,414 |
| Permitting services | - | - | 17,866,311 | 17,041,912 | 17,866,311 | 17,041,912 |
| Community use of public facilities | - | - | 5,931,243 | 5,640,334 | 5,931,243 | 5,640,334 |
| Total Expenses | 2,326,089,735 | 2,237,915,779 | 269,984,308 | 259,012,626 | 2,596,074,043 | 2,496,928,405 |
| Increase (Decrease) in Net Assets | | | | | | |
| Before Special Item and Transfers | (110,343,545) | (37,447,183) | 32,867,417 | 30,067,502 | (77,476,128) | (7,379,681) |
| Special items: | | | | | | |
| Settlement of interfund balances | - | 1,966,187 | - | (1,966,187) | - | - |
| Loss on disposal of capital assets | - | - | (3,938,026) | - | (3,938,026) | - |
| Depreciation adjustment | - | - | 599,465 | - | 599,465 | - |
| Transfers | 20,854,550 | 36,515,563 | (20,854,550) | (36,515,563) | - | - |
| Increase (Decrease) in Net Assets | (89,488,995) | 1,034,567 | 8,674,306 | (8,414,248) | (80,814,689) | (7,379,681) |
| Net Assets as of July 1, 2002 | 1,465,061,872 | 1,464,027,305 | 199,937,380 | 208,351,628 | 1,664,999,252 | 1,672,378,933 |
| Net Assets as of June 30, 2003 | \$ 1,375,572,877 | \$ 1,465,061,872 | \$ 208,611,686 | \$ 199,937,380 | \$ 1,584,184,563 | \$ 1,664,999,252 |
| * Primary Government | | | | | | |

Governmental Activities

Revenues for the County's governmental activities were \$2,215.7 million for FY03. Sources of revenue are comprised of the following items:

Revenues by Source - Governmental Activities For the Fiscal Year Ended June 30, 2003

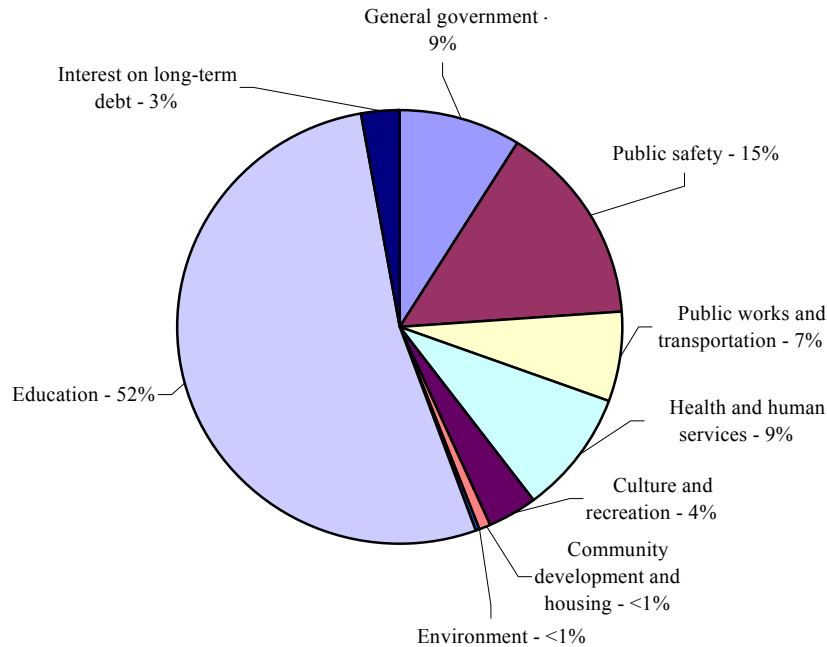


- Taxes constitute the largest source of County revenues, amounting to \$1,836.8 million for FY03. Property and local income tax combined comprise 73 percent of all County revenues. Each County in Maryland sets its income tax rate within parameters established by the State. The local income tax rate was 2.95 percent of the State taxable income for calendar years 2002 and 2003. There is no local sales tax in the State of Maryland.
- Operating grants and contributions represent primarily grants from the Federal and State governments and State aid programs. The majority of such revenues are received to fund the following County programs: health and human services (\$110.1 million or 52%), public works and transportation (\$56.7 million or 27%) and public safety (\$22.2 million or 11%).

A more detailed discussion of the County's revenue results for FY03 as compared to what was budgeted can be found in the General Fund Budgetary Highlights section of this MD&A.

The cost of all governmental activities for FY03 was \$2,326.1 million. As the chart below indicates, education constitutes the County's largest program and highest priority; education expenses totaled \$1.2 billion. Public safety expenses totaled \$348.7 million, while health and human services, the third largest expense for the County, totaled \$208.8 million.

**Expenses by Function - Governmental Activities
For the Fiscal Year Ended June 30, 2003**



The following table presents the cost and program revenues of each of the County's six largest programs – education, public safety, health and human services, general government, public works and transportation, and culture and recreation – as well as each program's net cost (total cost less fees generated by the activities and program-specific intergovernmental aid).

| Net Cost of County's Governmental Activities For the Fiscal Years Ended June 30, 2003 and 2002 | | | | | | |
|---|-------------------------|-------------------------|-----------------------|-----------------------|-------------------------|-------------------------|
| | Expenses | | Revenues | | Net Cost of Services | |
| | 2003 | 2002 | 2003 | 2002 | 2003 | 2002 |
| Education | \$ 1,225,921,559 | \$ 1,219,512,074 | \$ - | \$ - | \$ 1,225,921,559 | \$ 1,219,512,074 |
| Public safety | 348,701,601 | 309,564,731 | 40,534,761 | 46,804,524 | 308,166,840 | 262,760,207 |
| Health and human services | 208,820,841 | 197,263,408 | 117,823,577 | 111,130,897 | 90,997,264 | 86,132,511 |
| General government | 206,410,568 | 192,514,175 | 45,261,534 | 32,646,349 | 161,149,034 | 159,867,826 |
| Public works and transportation | 157,009,091 | 151,932,007 | 84,346,430 | 90,914,717 | 72,662,661 | 61,017,290 |
| Culture and recreation | 86,021,724 | 78,147,724 | 31,240,009 | 30,522,140 | 54,781,715 | 47,625,584 |
| Other | 93,204,351 | 88,981,660 | 22,831,124 | 22,444,133 | 70,373,227 | 66,537,527 |
| Total | <u>\$ 2,326,089,735</u> | <u>\$ 2,237,915,779</u> | <u>\$ 342,037,435</u> | <u>\$ 334,462,760</u> | <u>\$ 1,984,052,300</u> | <u>\$ 1,903,453,019</u> |

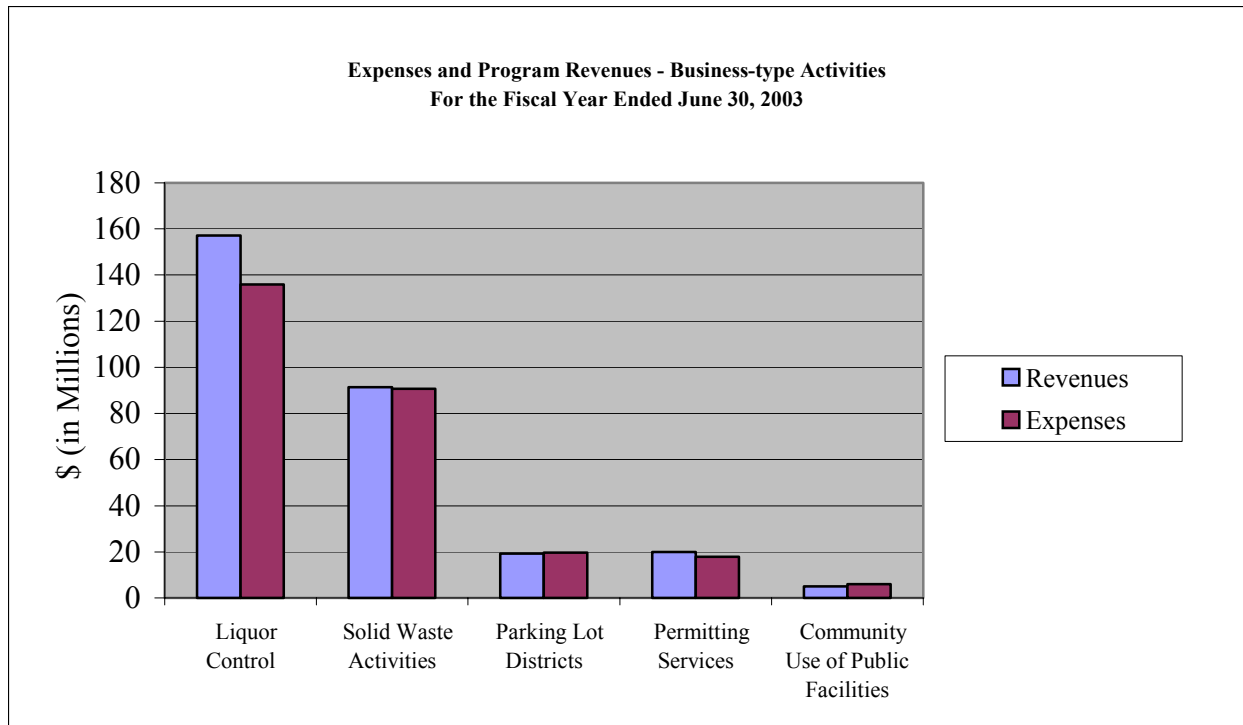
Some of the cost of governmental activities was paid by those who directly benefited from the programs (\$93.4 million) and other governments and organizations that subsidized certain programs with grants and contributions (\$248.7 million). Of the \$1,984.1 million net cost of services, the amount that our taxpayers paid for these activities through County taxes was \$1,836.8 million.

Business-type Activities

Highlights of the County's business-type activities for FY03 are as follows:

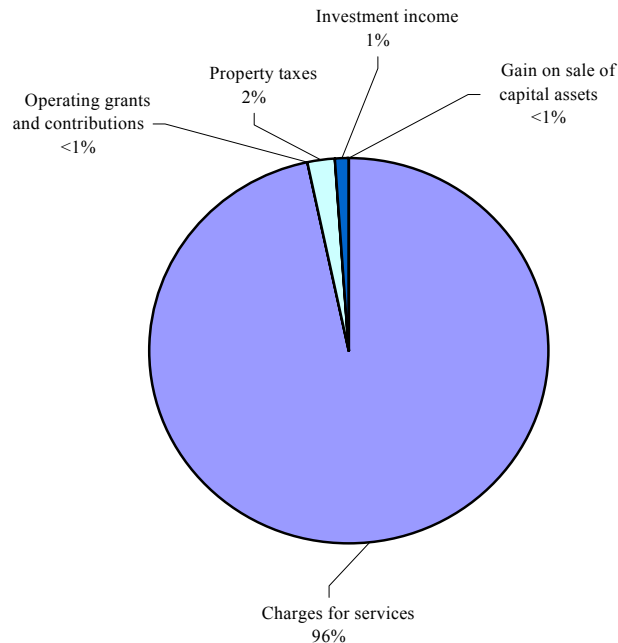
- Business-type activities experienced an increase in net assets of \$8.7 million for FY03. However, this amount is reported net after total transfers of \$20.9 million, \$19.0 million of which represents FY03 Liquor Enterprise Fund profits transferred to the General Fund. The Montgomery County Department of Liquor Control has a monopoly on the sale of alcoholic beverages within the County.
- Charges for services to users comprise 96% of revenues, with \$157.1 million (54% of charges for services revenue) attributable to liquor control operations and \$91.4 million (31%) attributable to solid waste disposal and collection activities. The remaining charges for services are generated from operations relating to parking lot districts, permitting services, and community use of public facilities.
- Parking lot district property taxes of \$7.1 million is the second largest source of revenue at only 2 percent.
- Investment income of \$3.1 million reflects a decrease of .8 million (21%), because of the significant drop in interest rates during the year.

Business-type activities are shown below comparing costs to revenues generated by related services:



Business-type revenues by source are comprised of the following:

**Revenues by Source - Business-type Activities
For the Fiscal Year Ended June 30, 2003**



FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

As noted earlier, the County uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds

The focus of the County's governmental funds is to provide information on near-term inflows, outflows and balances of spendable resources. Such information is valuable in assessing the County's financing requirements. In particular, the unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

At the end of FY03, the County's governmental funds reported combined ending fund balances of \$380.3 million, a decrease of \$138.5 million from the end of FY02. Of the total ending fund balances, \$78.0 million constitutes the unreserved fund balance, which is available for spending at the County's discretion. The remainder of the fund balances of \$302.3 million is unavailable for new spending because it has been reserved for prior period commitments and legal restrictions.

The General Fund is the primary operating fund of the County. At the end of FY03, unreserved and undesignated fund balance of the General Fund was \$34.6 million, while total fund balance was \$126.4 million. As a measure of the General Fund's liquidity, it may be useful to compare both unreserved and undesignated fund balance and total fund balance to total fund expenditures. Unreserved and undesignated fund balance represents 1.7 percent of the total General Fund expenditures and transfers out, while total fund balance represents 6.3 percent of the same amount.

The fund balance of the County's General Fund decreased by \$92.8 million during FY03, primarily due to:

- Use of beginning fund balance to fund the County's FY03 operating budget; and
- Supplemental and special appropriations approved by the County Council during the fiscal year for both operating and capital projects. Approximately one-third (\$8.3 million) of these mid-year appropriation increases were for costs associated with excess snow removal and storm cleanup. Other significant increases include \$6.2 million related to transportation initiatives under the Go Montgomery! Program, \$3.7 million related to public safety programs, and \$2.1 related to developmental disability programs.

The Capital Projects Fund has a total fund balance of \$47.8 million, which represents authorized and funded projects that are not completed. The unreserved deficit in this fund results primarily from fund balance encumbrances and legal restrictions on debt proceeds on hand.

The Debt Service Fund accumulates resources for the payment of general long-term debt principal, interest, and related costs. This fund does not maintain a fund balance.

A more detailed discussion of General Fund revenues can be found in the General Fund Budgetary Highlights section of MD&A. Other factors concerning the finances of the governmental funds are addressed in the discussion of the County's governmental activities.

Proprietary funds

The County's proprietary funds provide the same type of information found in the government-wide statements, but include more detail.

Unrestricted net assets of the Liquor Fund at the end of FY03 amounted to \$19.9 million, and operating income was \$21.3 million. After a subsidy transfer to the General Fund of \$19.0 million, the fund ended FY03 with an increase in net assets of \$2.3 million.

The Solid Waste Disposal and Collection Fund total net assets amounted to \$61.6 million, of which the unrestricted net assets were \$21.5 million. Restricted net assets of \$34.6 million are attributable to required debt service reserve accounts for the Solid Waste Disposal revenue bonds.

The Parking Lot Districts Fund increase in net assets amounted to \$12.0 million in FY03, resulting in total ending net assets of \$120.2 million. Of this amount, \$85.9 million (71%) is invested in capital net of related debt; \$5.6 million (5%) is restricted for debt service on, and unspent bond proceeds relating to, revenue bonds; and \$28.7 million (24%) is unrestricted. Of the \$12.0 million increase in net assets, \$7.9 million relates to transactions involving garages entered into as part of the redevelopment of downtown Silver Spring. A significant portion of one garage was demolished, resulting in a loss on disposal of \$3.9 million. In its place, the County is acquiring under capital lease a new garage, currently under construction. The lease is a general governmental obligation, and the asset is reflected in the Silver Spring Parking Lot District (SSPLD), as required by law. The SSPLD therefore reflects a transfer in from the General Fund of \$11.8 million, the value of construction-in-progress at year-end.

A discussion of enterprise fund long-term debt can be found in the Long-Term Debt section presented later in this MD&A. Other factors concerning the finances of the enterprise funds are addressed in the discussion of the County's business-type activities.

General Fund Budgetary Highlights

Revisions to the General Fund expenditure original budget (excluding transfers) to arrive at the final budget amounted to \$16.6 million, the majority of which related to County Council approved supplemental and special appropriations. Major components of the appropriation increases include the following:

- \$8.3 million for costs associated with excess snow removal and storm cleanup;
- \$2.1 million to replace Federal funding for developmental disability service providers that was lost due to a change in the State's developmental disability payment system;
- \$1.5 million for police department leave payouts related to the Discontinued Service Retirement Program;
- \$1.2 million for additional police recruits; and
- \$1.0 million related to the sniper-homicide investigation.

The Council also approved a supplemental appropriation of \$.7 million in the General Fund, and \$6.2 million in the Mass Transit Special Revenue Fund (funded by a transfer from the General Fund) for operating and capital costs associated with the Go Montgomery! Program. The majority of the funds were used for the acquisition of 15 additional buses.

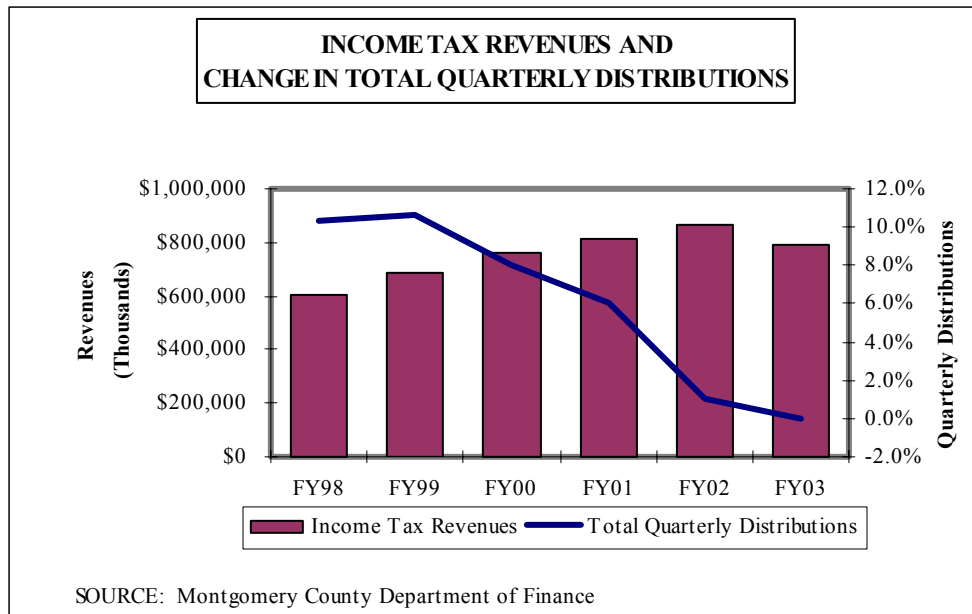
Actual revenues were less than budget amounts by \$8.9 million, while actual expenditures and net transfers out were less than final budget by \$4.4 million and \$56.3 million, respectively. Highlights of the comparison of final budget to actual figures for expenditures and net transfers for the fiscal year-ended June 30, 2003, include the following:

- Actual expenditures of \$630.7 million were \$4.4 million less than the final budget due primarily to a savings plan instituted in FY03 in anticipation of FY04 revenue shortfalls, in order to conserve resources so they would be carried forward to FY04.
- Actual transfers to the Capital Projects Fund and component units for capital purposes were less than budgeted by \$51.3 million. This is due both to the multi-year nature of capital projects, and to time delays encountered for certain projects.

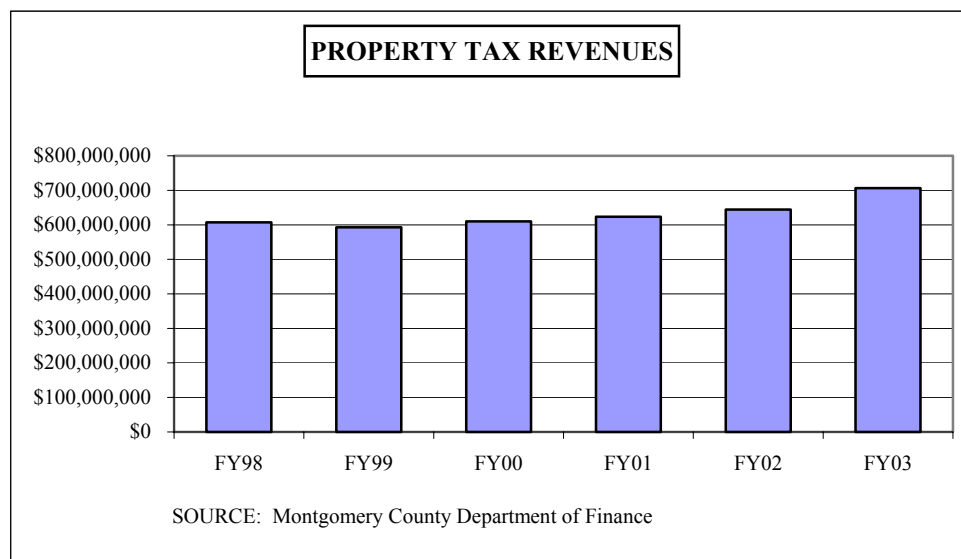
A more detailed comparison of final budget to actual figures for revenues is presented below:

- The largest revenue source for the General Fund is the County income tax. On an actual basis, income tax revenues at \$788.0 million represented 46.3 percent of total tax revenues for the General Fund and 42.6 percent of total revenues in FY03.

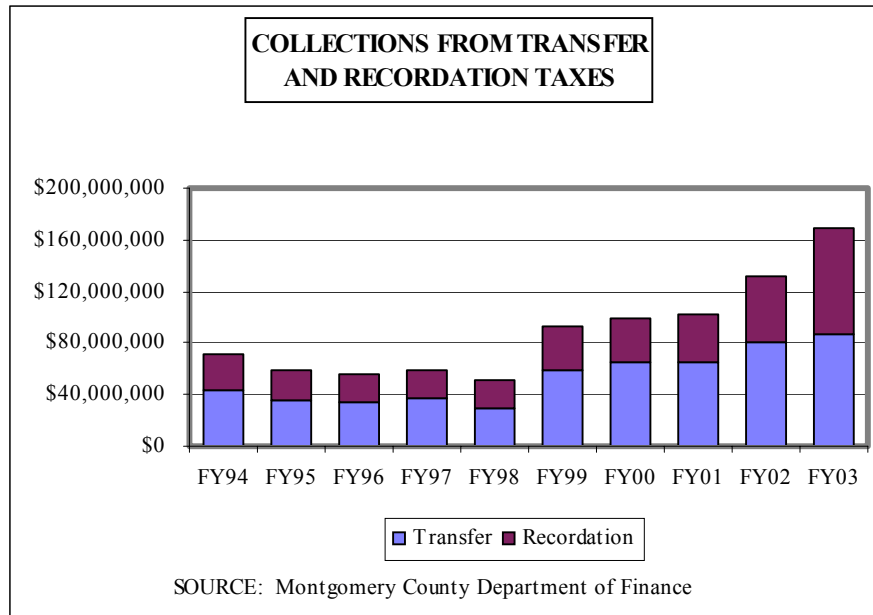
Income tax receipts became the majority source of tax revenues in the General Fund when it surpassed the property tax in size in FY99. The significant shift in the reliance on the income tax as a major source of revenue can be attributed to two factors: the expanding employment base in the County and growth in capital gains since FY98. With the recent decline in capital gains and meager employment growth in the County, revenues decreased 9.1 percent in FY03 compared to the 6.7 percent growth in FY02. There are a number of factors that contributed to the decline in income tax revenues. First, total payroll employment grew 0.7 percent during calendar year (CY) 2002, and wages and salaries, expressed in real terms, declined 0.1 percent in CY02. Second, capital gains continued their downward spiral during CY02. Other factors that contributed to the decline in FY03 were the sharp drop in the amount of revenue from additional filings and late filings pertaining to tax year 2001, which decreased \$73.3 million over FY02, fiduciary returns, which decreased \$1.6 million over FY02, and penalties and interest, which decreased \$200,000 over FY02. FY03 receipts coming in the midst of weak economic and financial market conditions continued to reflect a sharp slowdown. As the chart below illustrates, total quarterly distributions for withholding and estimated payments decreased 0.1% (FY03) compared to +1.1% (FY02), +6.1% (FY01), +8.0% (FY00), +10.6% (FY99), and +10.3% (FY98).



- Property tax collections in the General Fund amounted to \$695.4 million in FY03, which were 1.5 percent higher than the budget estimate and 7.9 percent above actual revenues in FY02. Property taxes, excluding penalty and interest, were \$691.3 million in FY03 – an increase of 7.8 percent over last year. However, collections from penalty and interest were \$4.0 million, an increase of 22.8 percent compared to FY02, but in line with the recent four-year historical collection trend of approximately \$3.7 million annually. The increase in property tax collections was the result of a 6.2 percent increase in the assessable base for real property from FY02 to FY03 (assessments of personal property increased only 0.6 percent). This was the largest increase in over seven years. New construction, which added \$1.6 billion to the base in FY03, was 8.4 percent greater than FY02. The significant increase in the reassessment rate from 2.7 percent to 21.8 percent for Cycle Two reassessments (based on triennial reassessment cycles by geographic area performed by the State Department of Assessments and Taxation) of the County's real property, which followed an increase in the rate from 1.1 percent to 13.5 percent for Cycle One reassessments in FY02, also contributed significantly to the increase in property tax collections. Because of the significant increases in the reassessment rates, \$3.4 billion was added to the assessable base. As a result, the 7.9 percent increase in actual property tax revenues in FY03 over FY02 was significantly higher than in the previous six fiscal years.



- The third major category in the County is the combination of real property transfer and recordation taxes. The combined tax receipts from these sources were \$169.6 million, which was 31.5 percent above the budget estimate and 28.4 percent above FY02. Collections from transfer and recordation taxes continue to reach record highs. As the accompanying chart illustrates, the amount collected from these taxes increased \$118.4 million since FY98 or almost a threefold increase.



Following a four-year period of decline in tax collections from transfer and recordation taxes ending in FY98 that reflected a weak real estate market in the County, receipts began their historical rise in FY99 jumping 81.7 percent in FY99, moderating in FY00 and FY01, then accelerating another 29.0 percent in FY02 and 28.4 percent in FY03. Collections from recordation taxes exhibited the larger increase in FY03, 63.0 percent, compared to transfer taxes, which increased 6.5 percent. The larger increase was attributed to a 57 percent rate increase in the recordation tax from \$2.20 per \$500 of assessed value to \$3.45 per \$500 of assessed value in FY02. Additional factors that contributed to the increase in collections were the strong housing market and mortgage refinancing.

Revenues from the transfer tax were also exceptionally strong in FY03 with total collections at \$86.2 million for an all time record high. Revenues from the residential sector were \$75.6 million, an increase of 7.7 percent over FY02, and revenues from the non-residential sector were \$10.6 million, an increase of 10.0 percent. Although revenues from the transfer tax were exceptionally strong in FY03, they follow a significant increase of 25.1 percent in FY02. The average transfer tax increased from \$2,254 in FY98 to \$3,310 in FY03, representing a 47 percent growth rate, and is indicative of the jump in housing prices and a shift towards larger and more expensive homes in the County. The continued surge of real estate activity in FY03 attributed to historic low mortgage interest rates was a primary factor contributing to the underestimates of projected transfer and recordation tax revenues for FY03.

- The remaining tax sources – consisting of hotel/motel, fuel/energy, telephone, and admissions and amusement taxes – totaled \$47.6 million and were approximately \$320,000, or -0.7 percent, below the budget estimate. The sluggish economic recovery coupled with ongoing efforts against international terrorism and the sniper incident had an effect on revenues from the hotel/motel industry (-4.4 percent below budget estimate) during FY03. The sluggish economy also affected revenues from the admissions (-1.2 percent) and the telephone (-18.3 percent) taxes. Because of the harsh winter, there was a significant increase in the consumption of home heating oil and natural gas. Such increases led to a greater than expected increase in revenues from fuel/energy (+7.1 percent above budget estimate) taxes.

- Fines and forfeitures revenue of \$7.4 million came in \$7.1 million or 49.1 percent under the budget estimate. This shortfall relates primarily to the photo red light program, where budget estimates were based on a larger number of cameras coming on-line during the year than actually occurred.
- In the General Fund, investment income fell 37.8 percent from \$8.2 million in FY02 to \$3.1 million in FY03. Investment income was 62.2 percent below the budget estimate. The significant decline in investment income follows declines in FY01 and FY02 and is the result of the continuation of an accommodative policy of the Federal Open Market Committee (FOMC) of the Federal Reserve that began in January 2001. Since that time, the FOMC cut the federal funds rate thirteen times from 6.5 percent down to 1.0 percent in June 2003. Because of this unprecedented series of rate cuts, other short-term interest rates declined significantly as well, hence the average yield on cash equity for the County decreased from 2.61 percent in FY02 to 1.59 percent in FY03. Total pooled investment income on a budgetary basis, which includes all funds and outside participants excluding unrealized gains or losses, was \$11.2 million or 45.9 percent below last fiscal year. The decline in revenues without an offsetting decline in spending is reflected in the daily portfolio balance, which decreased from \$794.2 million in FY02 to \$696.4 million in FY03.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets

The County's investment in capital assets as of June 30, 2003, amounted to \$2,427.5 million (net of accumulated depreciation and amortization), as summarized below:

| Capital Assets, Net of Depreciation June 30, 2003 | | | | |
|--|----------------------------|-----------------------------|-------------------------|-------------------------|
| | Governmental Activities | Business-type Activities | Total FY03 | Total FY02 * |
| Land | \$ 468,610,493 | \$ 52,833,368 | \$ 521,443,861 | \$ 486,035,528 |
| Buildings | 312,494,466 | 83,135,517 | 395,629,983 | 302,350,215 |
| Improvements other than buildings | 23,329,704 | 18,018,648 | 41,348,352 | 40,092,210 |
| Furniture, fixtures, equipment and machinery | 115,241,249 | 7,451,473 | 122,692,722 | 13,162,755 |
| Automobiles and trucks | 74,644,520 | 1,246,747 | 75,891,267 | 75,837,616 |
| Infrastructure | 1,035,920,382 | - | 1,035,920,382 | 966,616,472 |
| Other assets | 4,904,960 | - | 4,904,960 | 6,700,702 |
| Construction in progress | 215,430,898 | 14,233,274 | 229,664,172 | 414,886,543 |
| Total | <u>\$ 2,250,576,672</u> | <u>\$ 176,919,027</u> | <u>\$ 2,427,495,699</u> | <u>\$ 2,305,682,041</u> |

* Certain amounts have been reclassified to conform with the current year presentation.

Changes in the County's capital assets for FY03 are summarized as follows:

| Change in Capital Assets For the Fiscal Year Ended June 30, 2003 | | | | |
|---|----------------------------|-----------------------------|-------------------------|-------------------------|
| | Governmental Activities | Business-type Activities | Total FY03 | Total FY02 |
| Beginning Balance | \$ 2,140,484,901 | \$ 165,197,140 | \$ 2,305,682,041 | \$ 2,136,044,091 |
| Additions* | 186,931,322 | 24,982,290 | 211,913,612 | 242,815,458 |
| Retirements, net* | 2,983,517 | 4,079,793 | 7,063,310 | 8,406,489 |
| Depreciation expense | 73,856,034 | 9,180,610 | 83,036,644 | 64,771,019 |
| Ending Balance | <u>\$ 2,250,576,672</u> | <u>\$ 176,919,027</u> | <u>\$ 2,427,495,699</u> | <u>\$ 2,305,682,041</u> |

* Presented net of transfers from construction in progress; retirements are also net of related accumulated depreciation.

Major capital asset events during the current fiscal year included the following:

- As part of a multi-project effort by Montgomery County to support retail-oriented redevelopment of the Silver Spring Central Business District (CBD), the County invested an additional \$20.8 million including the stabilization and renovation of the Silver Theatre and the construction of a new theatre for the Round House Theatre School.
- The County contributed an additional \$11.7 million towards the Public Safety 2000 projects, which were placed in service this fiscal year.
- Roads, including underlying land, valued at \$18.6 million were transferred to the County by various developers.
- In order to provide a multi-disciplinary education and performance center, the County invested \$30 million to add an Arts Education facility and a Concert Hall to the existing Strathmore Hall facility.
- In order to provide congestion relief and improve safe turning movement onto Montrose Road as well as reduce neighborhood cut-through traffic in neighborhoods abutting Montrose Road, \$7.3 million was spent to construct the Montrose Parkway West. This will be a new four-lane road from Montrose Road traveling east to 'old' Old Georgetown Road.
- To further support the redevelopment of the Silver Spring CBD, the County has entered into a capital lease agreement as lessee for two new parking garages. Construction-in-progress has increased by \$11.8 million in the Silver Spring Parking Lot District for the costs incurred for these garages through year-end.

Additional information pertaining to the County's capital assets can be found in Notes to Financial Statements.

Long-Term Debt

The following is a summary of the County's gross outstanding long-term debt as of June 30, 2003:

| Long-Term Debt | | | | |
|-----------------------------------|------------------------------------|-------------------------------------|-------------------------|-------------------------|
| June 30, 2003 | | | | |
| | Governmental Activities | Business-type Activities | Total FY03 | Total FY02 |
| General obligation bonds | \$ 1,288,100,672 | \$ 192,382 | \$ 1,288,293,054 | \$ 1,242,553,054 |
| Bond anticipation notes | 125,000,000 | - | 125,000,000 | 125,000,000 |
| Revenue bonds | - | 78,680,000 | 78,680,000 | 86,835,000 |
| Lease revenue bonds | 37,880,000 | - | 37,880,000 | 37,880,000 |
| Equipment notes payable | 1,088,738 | - | 1,088,738 | - |
| Notes payable | 1,341,206 | 800,000 | 2,141,206 | 2,208,951 |
| Certificates of participation | 31,570,000 | - | 31,570,000 | 43,530,000 |
| Due to Component Units - HOC loan | 2,550,000 | - | 2,550,000 | - |
| Capital leases | 31,201,945 | - | 31,201,945 | 19,940,589 |
| Compensated absences | 45,745,947 | 3,388,911 | 49,134,858 | 47,244,296 |
| Claims and judgements | 6,974,000 | - | 6,974,000 | 3,150,000 |
| Landfill closure costs | - | 23,854,523 | 23,854,523 | 24,687,900 |
| Total | <u>\$ 1,571,452,508</u> | <u>\$ 106,915,816</u> | <u>\$ 1,678,368,324</u> | <u>\$ 1,633,029,790</u> |

At June 30, 2003, the County had outstanding general obligation (GO) bonds of \$1,288.3 million and outstanding bond anticipation notes (BANs) of \$125 million. Over the last ten years, the County issued its GO bonds once a year. The County adopted a policy in 1988 of initially financing capital construction with BANs. Montgomery County also issues bonds to finance the capital construction of MCPS, MCC, and M-NCPPC not otherwise financed by the State of Maryland. Since FY93, the County sold general obligation bond issues of up to \$160 million. Over the last ten fiscal years, the County's annual issues averaged \$125.5 million.

The County continues to maintain its status as a top rated issuer of municipal securities, with the highest credit ratings possible for a local government. For its GO bonds, the County is a 'Triple AAA' rated County, and received ratings of Aaa from Moody's Investors Service, Inc., AAA from Standard and Poor's, and AAA from Fitch, Inc. Montgomery County has consistently had a Aaa rating from Moody's Investors Service, Inc. since April 1973. Bonds issued by the County since July 1976 have consistently been rated AAA by Standard and Poor's.

As of June 30, 2003, Montgomery County is one of only eight 'Triple AAA' rated counties in the nation with a population greater than 800,000. According to Standard and Poor's, a deep, diverse, and growing economy; strong financial management; and a low debt burden are the hallmarks of counties rated 'AAA.' The rating category, by definition, represents extremely strong capacity to pay principal and interest. Typically, 'AAA' rated counties demonstrate an ability to weather all economic cycles by maintaining tight budgetary controls, articulating and executing well-designed capital plans, maintaining sufficient reserves, and planning for future contingencies.

Continuing Disclosure - For purposes of complying with the County's continuing disclosure undertakings, this Comprehensive Annual Financial Report is provided to each nationally recognized municipal securities information repository and to the state information depository, if any, established for Maryland. Individuals interested in the information to be provided pursuant to such continuing disclosure undertakings should refer to the A Exhibits and Notes to the Financial Statements, as well as Tables 1 - 3, 6, 7, and 13 - 17.

Significant bond-related debt activities during FY03 were:

- General Obligation Bonds – This latest installment of the County's annual issue on May 14, 2003 funds capital expenditures for roads, schools, and government facilities. This new money sale also included a refunding component that resulted in net present value savings to the County of \$4.2 million. By conducting a bifurcated bond sale, new money and refunding bonds, the County saved on issuance costs. Notable with this sale was that the true interest cost on the new money bonds was the lowest cost of funds in over 30 years.
- Bond Anticipation Notes (BANs) - In July 2002, the County's 1995 Series BAN program expired and was replaced by the 2002 Series BAN program. The new program is initially authorized at the same level (\$200 million) as the 1995 Series. During FY03, the County issued BANs in the amounts of \$75 million in December and \$80 million in June. Proceeds are being used to fund the County's capital program.
- Solid Waste Refunding Bonds - In March, the County issued Solid Waste System refunding bonds in the amount of \$31.1 million. These refunding bonds replaced bonds issued in 1993 to fund certain capital costs of the County's solid waste system. The refunding resulted in net present value savings to the County of \$1.9 million.

Significant debt activity relating to capital lease agreements that the County entered into during FY03 were:

- Montgomery County Revenue Authority (MCRA) Conference Center Project – This issue was sold to fund, in part, the Conference Center Project at White Flint. MCRA bonds were sold on the same schedule as the bonds sold by the Maryland Stadium Authority to fund its contribution to the project. MCRA bonds are lease revenue bonds and are secured by the County's lease payments to MCRA which are sufficient to pay the debt service on the bonds.
- Maryland Economic Development Corp. (MEDCO) Silver Spring Garages – These two issues were sold in September and October of 2002, to fund the construction of the Town Square and Wayne Avenue garages in Silver Spring. The bonds were issued by MEDCO and the proceeds are being used to construct the garages. The County will make lease payments to MEDCO sufficient to pay the debt service on the bonds.

The County also managed two debt transactions during FY03, which were outside the County's typical bonding activity. Below is a brief description.

- Notes Payable – During FY03, the County on three occasions used its Master Lease program, accounted for as notes payable in the accompanying financial statements, to fund the \$1.1 million purchase of 11 ambulances for the County's Fire and Rescue Service. Payments are made on a semi-annual basis over five years from the dates of the initial draws. Security for the leases is the ambulances.
- Conduit Debt – In December 2002, the County issued on behalf of the Institute for Genomic Research (TIGR) economic development revenue/conduit bonds in the amount of \$42.9 million for the construction of a new headquarters and to refinance construction bonds issued in 1994. The bonds are backed by TIGR and a letter of credit issued by the Bank of America.

Additional information pertaining to the County's long-term debt can be found in Notes to Financial Statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The following economic factors are reflected in the County's FY04 budget:

- The County's economic projections in the FY04 budget assumes a modest recovery in FY04 with the County's economy experiencing low unemployment but meager growth in payroll employment, inflation slightly above the national average, and personal income growing above CY02 and CY03 rates.
- The economy in the County avoided a recession in FY02 and FY03. This is attributed to the presence of the federal government spending in the County either through direct employment or procurement. The federal government contributes 30 percent to the County's economy and because of that proportion, it helps the County avoid major economic downturns that are experienced at the national level.
- The forecast assumes that personal income will increase 4.5 percent on average between FY04 and FY09. That average is slightly above the forecast for FY03 which was 4.4 percent.
- Resident employment is expected to increase 1.6 percent on average between FY04 and FY09. That average is slightly above the forecast for FY03 which was 1.5 percent.
- High energy prices, particularly gasoline prices, reached record highs during FY03, but are expected to ease in FY04. Because of the expected decline in gasoline prices, the consumer prices are expected to remain between 2.3 percent and 2.4 percent between FY04 and FY09.

REQUESTS FOR INFORMATION

The financial report is designed to provide a general overview of Montgomery County's finances for all those with an interest in the County's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Montgomery County Government, Department of Finance, 101 Monroe Street, Rockville, Maryland, 20850. This report can also be found on the County's website, <http://montgomerycountymd.gov> (see county services, finance, financial reports).

BASIC FINANCIAL STATEMENTS

MONTGOMERY COUNTY, MARYLAND
STATEMENT OF NET ASSETS
JUNE 30, 2003
Exhibit A-1

| | Primary Government | | | Component |
|--|-------------------------|-----------------------|-------------------------|-------------------------|
| | Governmental | Business-type | Total | Units |
| | Activities | Activities | | Total |
| ASSETS | | | | |
| Equity in pooled cash and investments | \$ 389,806,435 | \$ 95,008,625 | \$ 484,815,060 | \$ 39,465,311 |
| Cash with fiscal agents | 49,569,577 | 140,801 | 49,710,378 | 22,397,823 |
| Cash | 187,965 | 35,575 | 223,540 | 12,373,823 |
| Investments-cash equivalents | - | - | - | 75,922,607 |
| Investments | 7,173,294 | - | 7,173,294 | 2,804,851 |
| Receivables (net of allowances for uncollectibles): | | | | |
| Income taxes | 225,446,049 | - | 225,446,049 | - |
| Property taxes | 36,297,043 | 1,261,878 | 37,558,921 | - |
| Capital leases | 35,509,041 | - | 35,509,041 | 19,101,173 |
| Accounts | 15,343,902 | 5,467,171 | 20,811,073 | 17,028,172 |
| Special assessments | 73,148 | - | 73,148 | - |
| Notes | 3,615,572 | - | 3,615,572 | 38,355 |
| Parking violations | 827,259 | 1,823,271 | 2,650,530 | - |
| Mortgages | 68,055,767 | - | 68,055,767 | 255,664,332 |
| Interest | 105,227 | - | 105,227 | 3,988,630 |
| Other | 70,814 | - | 70,814 | 6,571,757 |
| Net internal balance | 2,129,204 | (2,129,204) | - | - |
| Due from primary government | - | - | - | 36,327,073 |
| Due from component units | 61,238,137 | 60,272 | 61,298,409 | - |
| Due from other governments | 58,388,277 | 309,186 | 58,697,463 | 32,897,859 |
| Inventory of supplies | 6,279,087 | 28,283,744 | 34,562,831 | 9,537,023 |
| Prepays | 6,165,743 | 491,966 | 6,657,709 | 1,684,958 |
| Deferred charges | 3,087,782 | 1,318,303 | 4,406,085 | 743,556 |
| Other assets | - | 93,599 | 93,599 | 22,179,052 |
| Restricted assets: | | | | |
| Equity in pooled cash and investments | - | 37,096,899 | 37,096,899 | 12,008,003 |
| Cash | - | - | - | 178,377 |
| Cash with fiscal agents | - | - | - | 13,172,502 |
| Investments-cash equivalents | - | - | - | 120,478,787 |
| Investments | - | 3,153,552 | 3,153,552 | 188,706,806 |
| Capital assets: | | | | |
| Nondepreciable assets | 684,041,391 | 67,066,642 | 751,108,033 | 298,107,527 |
| Depreciable assets, net | 1,566,535,281 | 109,852,385 | 1,676,387,666 | 1,497,073,761 |
| Total Assets | <u>\$ 3,219,945,995</u> | <u>\$ 349,334,665</u> | <u>\$ 3,569,280,660</u> | <u>\$ 2,688,452,118</u> |

(Continued)

MONTGOMERY COUNTY, MARYLAND
STATEMENT OF NET ASSETS, CONCLUDED
JUNE 30, 2003
Exhibit A-1

| | Primary Government | | | Component |
|---|-------------------------|-----------------------|-------------------------|-------------------------|
| | Governmental | Business-type | Total | Units |
| | Activities | Activities | | Total |
| LIABILITIES | | | | |
| Accounts payable | \$ 47,053,687 | \$ 21,799,563 | \$ 68,853,250 | \$ 77,358,063 |
| Interest payable | 19,384,706 | 479,323 | 19,864,029 | 15,355,404 |
| Retainage payable | 15,722,209 | 1,105,061 | 16,827,270 | 8,257,716 |
| Accrued liabilities | 38,004,005 | 7,883,745 | 45,887,750 | 4,030,448 |
| Claims payable | 66,564,246 | - | 66,564,246 | 20,955,038 |
| Deposits | 1,175,418 | 485,892 | 1,661,310 | 8,080,078 |
| Due to primary government | - | - | - | 61,384,388 |
| Due to component units | 35,696,967 | 630,106 | 36,327,073 | - |
| Due to other governments | 14,544,603 | 1,249,942 | 15,794,545 | - |
| Deferred revenue | 30,561,670 | 730,397 | 31,292,067 | 24,044,904 |
| Other liabilities | - | - | - | 9,579,489 |
| Noncurrent liabilities: | | | | |
| Due within one year | 292,520,000 | 11,937,935 | 304,457,935 | 78,184,901 |
| Due in more than one year | 1,283,145,607 | 94,421,015 | 1,377,566,622 | 858,038,372 |
| Total Liabilities | <u>1,844,373,118</u> | <u>140,722,979</u> | <u>1,985,096,097</u> | <u>1,165,268,801</u> |
| NET ASSETS | | | | |
| Invested in capital assets, net of related debt | 1,584,549,157 | 98,603,512 | 1,683,152,669 | 1,447,684,426 |
| Restricted for: | | | | |
| Capital projects | 47,771,695 | - | 47,771,695 | 311,576 |
| Nonexpendable permanent fund - housing | 7,694,770 | - | 7,694,770 | - |
| General government | 100,267,143 | - | 100,267,143 | - |
| Public safety | 11,117,517 | - | 11,117,517 | - |
| Public works and transportation | 8,433,604 | 90,462,462 | 98,896,066 | - |
| Recreation | 9,724,940 | - | 9,724,940 | - |
| Community development and housing | 68,858,642 | - | 68,858,642 | - |
| Debt service | - | - | - | 64,374,685 |
| Other purposes | - | - | - | 5,735,167 |
| Unrestricted (deficit) | (462,844,591) | 19,545,712 | (443,298,879) | 5,077,463 |
| Total net assets | <u>\$ 1,375,572,877</u> | <u>\$ 208,611,686</u> | <u>\$ 1,584,184,563</u> | <u>\$ 1,523,183,317</u> |

Notes to Financial Statements are an integral part of this statement.

MONTGOMERY COUNTY, MARYLAND
STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
Exhibit A-2

| Functions | Expenses | Program Revenues | | |
|--|------------------|----------------------|------------------------------------|----------------------------------|
| | | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions |
| Primary Government: | | | | |
| Governmental activities: | | | | |
| General government | \$ 206,410,568 | \$ 33,920,013 | \$ 11,341,521 | \$ - |
| Public safety | 348,701,601 | 15,840,488 | 22,243,268 | 2,451,005 |
| Public works and transportation | 157,009,091 | 15,945,337 | 56,656,946 | 11,744,147 |
| Health and human services | 208,820,841 | 5,970,156 | 110,092,143 | 1,761,278 |
| Culture and recreation | 86,021,724 | 18,772,657 | 3,623,100 | 8,844,252 |
| Community development and housing | 19,602,595 | 154,869 | 6,988,127 | 6,716,471 |
| Environment | 6,672,833 | 2,772,758 | - | 6,198,899 |
| Education | 1,225,921,559 | - | - | - |
| Interest on long-term debt | 66,928,923 | - | - | - |
| Total governmental activities | 2,326,089,735 | 93,376,278 | 210,945,105 | 37,716,052 |
| Business-type activities: | | | | |
| Liquor control | 135,890,772 | 157,059,202 | - | - |
| Solid waste disposal and collection | 90,633,907 | 91,426,301 | - | - |
| Parking lot districts | 19,662,075 | 19,233,041 | - | - |
| Permitting services | 17,866,311 | 19,954,424 | - | - |
| Community use of public facilities | 5,931,243 | 4,902,773 | 51,154 | - |
| Total business-type activities | 269,984,308 | 292,575,741 | 51,154 | - |
| Total primary government | \$ 2,596,074,043 | \$ 385,952,019 | \$ 210,996,259 | \$ 37,716,052 |
| Component units: | | | | |
| General government (BUPI) | \$ 2,533,481 | \$ 2,205,683 | \$ 185,063 | \$ - |
| Culture and recreation (MCRA) | 13,245,221 | 10,529,269 | - | 38,544 |
| Community development and housing (HOC) | 162,223,661 | 101,682,670 | 66,130,607 | 3,900,740 |
| Education: | | | | |
| Elementary and secondary education (MCPS) | 1,573,488,788 | 29,810,860 | 124,705,678 | 31,504,220 |
| Higher education (MCC) | 164,373,640 | 51,832,401 | 15,092,583 | 2,353,031 |
| Total component units | \$ 1,915,864,791 | \$ 196,060,883 | \$ 206,113,931 | \$ 37,796,535 |
| General revenues: | | | | |
| Property taxes | | | | |
| County income taxes | | | | |
| Real property transfer taxes | | | | |
| Recordation taxes | | | | |
| Fuel energy taxes | | | | |
| Hotel-motel taxes | | | | |
| Telephone taxes | | | | |
| Other taxes | | | | |
| Grants and contributions not restricted to specific programs | | | | |
| Investment income | | | | |
| Gain (loss) on sale of capital assets | | | | |
| Special items: | | | | |
| Loss on disposal capital assets | | | | |
| Depreciation adjustment | | | | |
| Transfers | | | | |
| Total general revenues, special item, and transfers | | | | |
| Change in net assets | | | | |
| Net assets - beginning | | | | |
| Net assets - ending | | | | |

Notes to Financial Statements are an integral part of this statement.

| Net (Expense) Revenue and Changes in Net Assets | | | |
|---|-----------------------------|------------------|--------------------|
| Primary Government | | | |
| Governmental Activities | Business-type Activities | Total | Component Units |
| \$ (161,149,034) | \$ - | \$ (161,149,034) | \$ - |
| (308,166,840) | - | (308,166,840) | - |
| (72,662,661) | - | (72,662,661) | - |
| (90,997,264) | - | (90,997,264) | - |
| (54,781,715) | - | (54,781,715) | - |
| (5,743,128) | - | (5,743,128) | - |
| 2,298,824 | - | 2,298,824 | - |
| (1,225,921,559) | - | (1,225,921,559) | - |
| (66,928,923) | - | (66,928,923) | - |
| (1,984,052,300) | - | (1,984,052,300) | - |
| - | 21,168,430 | 21,168,430 | - |
| - | 792,394 | 792,394 | - |
| - | (429,034) | (429,034) | - |
| - | 2,088,113 | 2,088,113 | - |
| - | (977,316) | (977,316) | - |
| - | 22,642,587 | 22,642,587 | - |
| (1,984,052,300) | 22,642,587 | (1,961,409,713) | - |
| - | - | - | (142,735) |
| - | - | - | (2,677,408) |
| - | - | - | 9,490,356 |
| - | - | - | (1,387,468,030) |
| - | - | - | (95,095,625) |
| - | - | - | (1,475,893,442) |
| 856,439,593 | 7,096,856 | 863,536,449 | - |
| 757,486,559 | - | 757,486,559 | - |
| 86,157,330 | - | 86,157,330 | - |
| 83,426,177 | - | 83,426,177 | - |
| 26,168,427 | - | 26,168,427 | - |
| 11,903,550 | - | 11,903,550 | - |
| 6,555,800 | - | 6,555,800 | - |
| 8,649,024 | - | 8,649,024 | - |
| - | - | - | 1,519,484,980 |
| 31,489,144 | 3,069,224 | 34,558,368 | 2,284,581 |
| 5,433,151 | 58,750 | 5,491,901 | 3,577 |
| - | (3,938,026) | (3,938,026) | - |
| - | 599,465 | 599,465 | - |
| 20,854,550 | (20,854,550) | - | - |
| 1,894,563,305 | (13,968,281) | 1,880,595,024 | 1,521,773,138 |
| (89,488,995) | 8,674,306 | (80,814,689) | 45,879,696 |
| 1,465,061,872 | 199,937,380 | 1,664,999,252 | 1,477,303,621 |
| \$ 1,375,572,877 | \$ 208,611,686 | \$ 1,584,184,563 | \$ 1,523,183,317 |

MONTGOMERY COUNTY, MARYLAND
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2003
Exhibit A-3

| | General | Debt Service | Capital Projects | Other Governmental Funds | Total Governmental Funds |
|--|-----------------------|----------------------|-----------------------|--------------------------------|--------------------------------|
| ASSETS | | | | | |
| Equity in pooled cash and investments | \$ 80,418,537 | \$ 1,835,636 | \$ 95,227,036 | \$ 143,237,795 | \$ 320,719,004 |
| Cash with fiscal agents | - | 31,616,982 | 17,952,595 | - | 49,569,577 |
| Cash | 152,465 | - | - | 35,200 | 187,665 |
| Investments | - | - | - | 7,173,294 | 7,173,294 |
| Receivables (net of allowances for uncollectibles): | | | | | |
| Income taxes | 225,446,049 | - | - | - | 225,446,049 |
| Capital leases | - | 35,509,041 | - | - | 35,509,041 |
| Property taxes | 29,698,063 | - | - | 6,598,980 | 36,297,043 |
| Accounts | 11,447,300 | 35,458 | 1,321,487 | 2,418,659 | 15,222,904 |
| Special assessments | - | 73,148 | - | - | 73,148 |
| Notes | - | - | - | 3,553,588 | 3,553,588 |
| Parking violations | 827,259 | - | - | - | 827,259 |
| Mortgages | 212,116 | - | - | 67,843,651 | 68,055,767 |
| Interest | - | - | - | 105,227 | 105,227 |
| Other | - | 404 | 7,203 | 61,397 | 69,004 |
| Due from other funds | 104,379,316 | - | - | 1,615,497 | 105,994,813 |
| Due from component units | 6,698,211 | - | 30,682,311 | 23,106,317 | 60,486,839 |
| Due from other governments | 17,454,230 | - | 25,841,173 | 14,867,261 | 58,162,664 |
| Inventory of supplies | 3,886,208 | - | 667,692 | - | 4,553,900 |
| Prepays | 709,953 | - | 4,284,189 | 506,192 | 5,500,334 |
| Total Assets | <u>\$ 481,329,707</u> | <u>\$ 69,070,669</u> | <u>\$ 175,983,686</u> | <u>\$ 271,123,058</u> | <u>\$ 997,507,120</u> |
| LIABILITIES AND FUND BALANCES | | | | | |
| Liabilities: | | | | | |
| Accounts payable | \$ 11,123,350 | \$ 98,502 | \$ 21,925,106 | \$ 11,206,905 | \$ 44,353,863 |
| Retainage payable | 78,013 | - | 15,644,196 | - | 15,722,209 |
| Accrued liabilities | 26,651,901 | - | 440,282 | 5,040,026 | 32,132,209 |
| Deposits | - | 1,000,000 | - | 175,418 | 1,175,418 |
| Due to other funds | 4,752,051 | 31,610,184 | 74,473,748 | 1,832,713 | 112,668,696 |
| Due to component units | 29,575,442 | - | 4,837,052 | 1,236,565 | 35,649,059 |
| Due to other governments | 6,797,518 | - | 2,150,997 | 5,585,784 | 14,534,299 |
| Deferred revenue | 275,927,262 | 36,361,983 | 8,740,610 | 39,907,579 | 360,937,434 |
| Total Liabilities | <u>354,905,537</u> | <u>69,070,669</u> | <u>128,211,991</u> | <u>64,984,990</u> | <u>617,173,187</u> |
| Fund balances: | | | | | |
| Reserved for: | | | | | |
| Encumbrances | 16,783,091 | - | 129,472,223 | 12,987,888 | 159,243,202 |
| Legal debt restrictions | - | - | 48,196,201 | - | 48,196,201 |
| Long-term receivables | - | - | 10,594,746 | 62,958,394 | 73,553,140 |
| Inventory and prepaids | 4,596,161 | - | 4,951,881 | 503,682 | 10,051,724 |
| Fire-Rescue Grant | - | - | - | 1,455,830 | 1,455,830 |
| Donor-specified purposes | - | - | - | 970,098 | 970,098 |
| Other purposes | 1,161,224 | - | - | 7,694,770 | 8,855,994 |
| Total Reserved | <u>22,540,476</u> | <u>-</u> | <u>193,215,051</u> | <u>86,570,662</u> | <u>302,326,189</u> |
| Unreserved: | | | | | |
| Designated for subsequent years' expenditures | 17,300,037 | - | - | 15,866,177 | 33,166,214 |
| Designated for transfers to Capital Projects Fund | 51,936,828 | - | - | 3,379,994 | 55,316,822 |
| Undesignated (deficit), reported in: | | | | | |
| General Fund | 34,646,829 | - | - | - | 34,646,829 |
| Capital Projects Fund | - | - | (145,443,356) | - | (145,443,356) |
| Special Revenue Funds | - | - | - | 100,321,235 | 100,321,235 |
| Total Unreserved | <u>103,883,694</u> | <u>-</u> | <u>(145,443,356)</u> | <u>119,567,406</u> | <u>78,007,744</u> |
| Total Fund Balances | <u>126,424,170</u> | <u>-</u> | <u>47,771,695</u> | <u>206,138,068</u> | <u>380,333,933</u> |
| Total Liabilities and Fund Balances | <u>\$ 481,329,707</u> | <u>\$ 69,070,669</u> | <u>\$ 175,983,686</u> | <u>\$ 271,123,058</u> | <u>\$ 997,507,120</u> |

Notes to Financial Statements are an integral part of this statement.

MONTGOMERY COUNTY, MARYLAND
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2003
Exhibit A-4

| | | |
|---|--|----------------|
| Total fund balance - governmental funds | | \$ 380,333,933 |
|---|--|----------------|

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental fund activities are not financial resources and therefore not reported in the funds:

Nondepreciable capital assets:

| | |
|--------------------------|----------------|
| Land | \$ 468,587,987 |
| Construction in progress | 215,430,898 |

Depreciable capital assets:

| | |
|--|---------------|
| Buildings | 486,933,161 |
| Improvements other than buildings | 43,873,299 |
| Furniture, fixtures, equipment and machinery | 151,318,541 |
| Automobiles and trucks | 86,819,947 |
| Infrastructure | 1,324,726,085 |
| Other capital assets | 7,058,182 |

| | |
|-----------------------|---------------|
| Total capital assets: | 2,784,748,100 |
|-----------------------|---------------|

| | | |
|-------------------------------|---------------|---------------|
| Less accumulated depreciation | (557,476,168) | 2,227,271,932 |
|-------------------------------|---------------|---------------|

Long-term liabilities related to governmental fund activities are not due and payable in the current period and therefore not reported in the funds:

| | |
|----------------------------------|-----------------|
| General obligation bonds payable | (1,288,100,672) |
| Bond anticipation notes payable | (125,000,000) |
| Lease revenue bonds payable | (37,880,000) |
| Certificates of participation | (31,570,000) |
| Accrued interest payable | (19,384,706) |
| Capital leases payable | (31,201,945) |
| Notes payable | (2,429,944) |
| Other long-term debt payable | (2,550,000) |
| Compensated absences | (44,604,183) |
| Claims and judgments | (6,974,000) |

(1,589,695,450)

Costs incurred from the issuance of long-term debt are recognized as expenditures in the fund statements, but are deferred in the government-wide statements:

| | |
|------------------------------|--------------|
| Unamortized premiums | (20,968,441) |
| Deferred amount on refunding | 16,755,342 |
| Deferred issuance costs | 3,087,782 |

(1,125,317)

Internal service funds are used by management to provide certain goods and services to governmental funds. The assets and liabilities of internal service funds are included in the government-wide statement of net assets:

Assets:

| | |
|-------------------------------|--------------|
| Current assets | 75,627,992 |
| Capital assets | 63,274,184 |
| Less accumulated depreciation | (39,969,444) |

| | |
|-------------|--------------|
| Liabilities | (72,525,437) |
|-------------|--------------|

| | | |
|---|-----------|------------|
| Cumulative loss for certain activities of internal service funds that is reported with business-type activities | 1,932,877 | 28,340,172 |
|---|-----------|------------|

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds:

| | |
|---------------------------|-------------|
| Income taxes | 224,809,353 |
| Property taxes | 39,375,643 |
| Intergovernmental revenue | 15,943,683 |
| Other revenue | 50,318,928 |

330,447,607

| | |
|---------------------------------------|------------------|
| Net assets of governmental activities | \$ 1,375,572,877 |
|---------------------------------------|------------------|

Notes to Financial Statements are an integral part of this statement.

MONTGOMERY COUNTY, MARYLAND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
Exhibit A-5

| | General | Debt Service | Capital Projects | Other Governmental Funds | Total Governmental Funds |
|---|-----------------------|----------------------|----------------------|--------------------------|--------------------------|
| REVENUES | | | | | |
| Taxes | \$1,700,565,963 | \$ - | \$ 1,788,564 | \$ 164,600,838 | \$ 1,866,955,365 |
| Licenses and permits | 8,728,837 | - | - | 1,346,497 | 10,075,334 |
| Intergovernmental | 111,611,635 | - | 30,653,627 | 100,516,550 | 242,781,812 |
| Charges for services | 11,308,963 | 4,882 | 2,207,618 | 30,964,716 | 44,486,179 |
| Fines and forfeitures | 7,383,288 | - | - | 1,551,194 | 8,934,482 |
| Investment income | 5,062,255 | 3,456,173 | 309,704 | 4,264,490 | 13,092,622 |
| Miscellaneous | 7,013,999 | - | 1,546,089 | 2,640,183 | 11,200,271 |
| Total Revenues | <u>1,851,674,940</u> | <u>3,461,055</u> | <u>36,505,602</u> | <u>305,884,468</u> | <u>2,197,526,065</u> |
| EXPENDITURES | | | | | |
| Current: | | | | | |
| General government | 161,740,334 | - | - | 11,914,248 | 173,654,582 |
| Public safety | 211,327,730 | - | - | 121,323,472 | 332,651,202 |
| Public works and transportation | 40,757,623 | - | - | 71,698,869 | 112,456,492 |
| Health and human services | 155,720,877 | - | - | 51,048,967 | 206,769,844 |
| Culture and recreation | 36,984,304 | - | - | 26,666,170 | 63,650,474 |
| Community development and housing | 10,862,615 | - | - | 7,958,101 | 18,820,716 |
| Environment | 3,436,834 | - | - | 971,107 | 4,407,941 |
| Education | 1,158,785,134 | - | - | - | 1,158,785,134 |
| Debt Service: | | | | | |
| Principal retirement: | | | | | |
| General obligation bonds | - | 106,665,149 | - | - | 106,665,149 |
| Bond anticipation notes | - | 155,000,000 | - | - | 155,000,000 |
| Other notes | - | 115,119 | - | - | 115,119 |
| Interest: | | | | | |
| General obligation bonds | - | 60,643,413 | - | - | 60,643,413 |
| Bond anticipation notes | - | 1,829,315 | - | - | 1,829,315 |
| Other notes | - | 51,150 | - | - | 51,150 |
| Leases and other obligations | - | 19,004,067 | - | - | 19,004,067 |
| Issuing costs | - | 2,013,285 | - | - | 2,013,285 |
| Capital Projects | - | - | 275,561,794 | - | 275,561,794 |
| Total Expenditures | <u>1,779,615,451</u> | <u>345,321,498</u> | <u>275,561,794</u> | <u>291,580,934</u> | <u>2,692,079,677</u> |
| Excess (Deficiency) of Revenues over (under) Expenditures | <u>72,059,489</u> | <u>(341,860,443)</u> | <u>(239,056,192)</u> | <u>14,303,534</u> | <u>(494,553,612)</u> |
| OTHER FINANCING SOURCES (USES) | | | | | |
| Transfers in | 41,054,600 | 183,839,212 | 25,818,277 | 26,770,129 | 277,482,218 |
| Transfers (out) | (217,724,988) | (1,342,360) | (88,772) | (36,375,045) | (255,531,165) |
| Sale of property | - | - | 4,782,081 | 2,031,991 | 6,814,072 |
| Financing under notes and leases payable | 11,776,945 | - | - | 1,136,112 | 12,913,057 |
| Payment to refunded bond escrow agent | - | (103,307,499) | - | - | (103,307,499) |
| Debt Issued: | | | | | |
| General obligation bonds | - | 159,079,103 | - | - | 159,079,103 |
| Bond anticipation notes | - | - | 155,000,000 | - | 155,000,000 |
| General obligation refunding bonds | - | 103,591,987 | - | - | 103,591,987 |
| Total Other Financing Sources (Uses) | <u>(164,893,443)</u> | <u>341,860,443</u> | <u>185,511,586</u> | <u>(6,436,813)</u> | <u>356,041,773</u> |
| Net Change in Fund Balances | (92,833,954) | - | (53,544,606) | 7,866,721 | (138,511,839) |
| Fund Balances - Beginning of Year | 219,258,124 | - | 101,316,301 | 198,271,347 | 518,845,772 |
| Fund Balances - End of Year | <u>\$ 126,424,170</u> | <u>\$ -</u> | <u>\$ 47,771,695</u> | <u>\$ 206,138,068</u> | <u>\$ 380,333,933</u> |

Notes to Financial Statements are an integral part of this statement.

MONTGOMERY COUNTY, MARYLAND
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
Exhibit A-6

| | | |
|--|--|------------------|
| Net change in fund balances - total governmental funds | | \$ (138,511,839) |
|--|--|------------------|

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of these assets is allocated over their estimated useful lives and reported as depreciation expense:

| | | |
|----------------------|---------------------|-------------|
| Capital outlay | \$ 191,000,777 | |
| Depreciation expense | <u>(69,687,004)</u> | 121,313,773 |

| | | |
|--|--|-------------|
| In the statement of activities, only the gain on the sale of capital assets is reported. However, in the governmental funds all proceeds are reported as financial resources. Thus, the change in net assets differs from the change in fund balance by the cost of capital assets sold. | | (1,380,921) |
|--|--|-------------|

| | | |
|--|--|------------|
| Donations of capital assets increase net assets in the statement of activities but do not appear in the governmental funds because they are not financial resources. | | 18,559,256 |
|--|--|------------|

Some revenues will not be collected for several months after the fiscal year ends. As such, these revenues are not considered "available" revenues and are deferred in the governmental funds. Deferred revenues increased (decreased) this year, as follows:

| | | |
|----------------------------|------------------|--------------|
| Income taxes | (30,511,181) | |
| Property taxes | (273,814) | |
| Intergovernmental revenues | 3,577,319 | |
| Other revenues | <u>3,211,280</u> | (23,996,396) |

The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities:

| | | |
|---------------------------------------|--------------------|--------------|
| Debt issued or incurred: | | |
| General obligation bonds | (159,079,103) | |
| General obligation refunding bonds | (103,591,987) | |
| Bond anticipation notes | (155,000,000) | |
| Capital lease financing | (11,776,945) | |
| Notes payable | (1,136,112) | |
| Other | (2,550,000) | |
| Less issuance costs | 2,013,285 | |
| Principal repayments: | | |
| General obligation bonds | 106,665,149 | |
| Bond anticipation notes | 155,000,000 | |
| Certificates of participation | 11,960,000 | |
| Capital leases | 515,589 | |
| Notes payable | 115,119 | |
| Payment to escrow agent for refunding | <u>103,307,499</u> | (53,557,506) |

Some expenses, representing the change in long-term liabilities or assets, reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds:

| | | |
|--------------------------------|-----------------|-------------|
| Accrued interest payable | 2,108,644 | |
| Compensated absences | (1,521,011) | |
| Claims and judgments | (3,824,000) | |
| Amortization of issuance costs | <u>(93,711)</u> | (3,330,078) |

| | | |
|--|--|--------------------|
| The current year loss for certain activities of internal service funds is reported with governmental activities. | | <u>(8,585,284)</u> |
|--|--|--------------------|

| | | |
|---|--|------------------------|
| Change in net assets of governmental activities | | <u>\$ (89,488,995)</u> |
|---|--|------------------------|

Notes to Financial Statements are an integral part of this statement.

MONTGOMERY COUNTY, MARYLAND
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
Exhibit A-7

| | Budget | | | | | Actual | Variance Positive (Negative) |
|------------------------------------|-------------------------|----------------|-------------------|-----------|----------------|----------------|------------------------------------|
| | Prior Year Carryover | Current Year | Total Original | Revisions | Final | | |
| | Encumbrances | | | | | | |
| Revenues: | | | | | | | |
| Taxes: | | | | | | | |
| Property | \$ - | \$ 682,345,880 | \$ 682,345,880 | \$ - | \$ 682,345,880 | \$ 691,293,819 | \$ 8,947,939 |
| Property - penalty and interest | - | 2,577,530 | 2,577,530 | - | 2,577,530 | 4,048,913 | 1,471,383 |
| Other | - | - | - | - | - | 11,746 | 11,746 |
| Total Property Tax | - | 684,923,410 | 684,923,410 | - | 684,923,410 | 695,354,478 | 10,431,068 |
| County Income Tax | - | 827,330,000 | 827,330,000 | - | 827,330,000 | 787,997,740 | (39,332,260) |
| Other Local Taxes: | | | | | | | |
| Real property transfer | - | 71,630,000 | 71,630,000 | - | 71,630,000 | 86,157,330 | 14,527,330 |
| Recordation | - | 57,350,000 | 57,350,000 | - | 57,350,000 | 83,426,177 | 26,076,177 |
| Fuel energy | - | 24,440,000 | 24,440,000 | - | 24,440,000 | 26,168,427 | 1,728,427 |
| Hotel - motel | - | 12,450,000 | 12,450,000 | - | 12,450,000 | 11,903,550 | (546,450) |
| Telephone | - | 8,020,000 | 8,020,000 | - | 8,020,000 | 6,555,800 | (1,464,200) |
| Other | - | 3,040,000 | 3,040,000 | - | 3,040,000 | 3,002,461 | (37,539) |
| Total Other Local Taxes | - | 176,930,000 | 176,930,000 | - | 176,930,000 | 217,213,745 | 40,283,745 |
| Total Taxes | - | 1,689,183,410 | 1,689,183,410 | - | 1,689,183,410 | 1,700,565,963 | 11,382,553 |
| Licenses and Permits: | | | | | | | |
| Business | - | 7,944,150 | 7,944,150 | - | 7,944,150 | 8,049,220 | 105,070 |
| Non business | - | 837,000 | 837,000 | - | 837,000 | 679,617 | (157,383) |
| Total Licenses and Permits | - | 8,781,150 | 8,781,150 | - | 8,781,150 | 8,728,837 | (52,313) |
| Intergovernmental Revenue: | | | | | | | |
| State Aid and Reimbursements: | | | | | | | |
| DHR State reimbursement - HB669 | - | 39,261,840 | 39,261,840 | - | 39,261,840 | 36,897,307 | (2,364,533) |
| Highway user revenue | - | 31,700,000 | 31,700,000 | - | 31,700,000 | 30,280,938 | (1,419,062) |
| Police protection | - | 12,972,000 | 12,972,000 | - | 12,972,000 | 13,009,239 | 37,239 |
| Health and human services programs | - | 5,694,980 | 5,694,980 | - | 5,694,980 | 5,509,098 | (185,882) |
| Public libraries | - | 3,882,160 | 3,882,160 | - | 3,882,160 | 3,618,716 | (263,444) |
| 911 Emergency | - | 3,000,000 | 3,000,000 | - | 3,000,000 | 2,788,070 | (211,930) |
| Electric regulation | - | 2,766,000 | 2,766,000 | - | 2,766,000 | 2,765,553 | (447) |
| Other | - | 2,299,930 | 2,299,930 | - | 2,299,930 | 1,121,380 | (1,178,550) |
| Total State Aid and Reimbursements | - | 101,576,910 | 101,576,910 | - | 101,576,910 | 95,990,301 | (5,586,609) |
| Federal Reimbursements: | | | | | | | |
| Federal financial participation | - | 7,392,650 | 7,392,650 | - | 7,392,650 | 11,799,270 | 4,406,620 |
| Other | - | 2,040,260 | 2,040,260 | - | 2,040,260 | 2,563,330 | 523,070 |
| Total Federal Reimbursements | - | 9,432,910 | 9,432,910 | - | 9,432,910 | 14,362,600 | 4,929,690 |
| Other Intergovernmental | - | 3,598,780 | 3,598,780 | 75,249 | 3,674,029 | 1,258,734 | (2,415,295) |
| Total Intergovernmental Revenue | - | 114,608,600 | 114,608,600 | 75,249 | 114,683,849 | 111,611,635 | (3,072,214) |
| Charges for Services: | | | | | | | |
| General government | - | 1,785,130 | 1,785,130 | - | 1,785,130 | 1,510,458 | (274,672) |
| Public safety | - | 7,948,960 | 7,948,960 | - | 7,948,960 | 7,266,383 | (682,577) |
| Health and human services | - | 1,197,000 | 1,197,000 | - | 1,197,000 | 1,343,247 | 146,247 |
| Culture and recreation | - | 5,000 | 5,000 | - | 5,000 | 4,495 | (505) |
| Environment | - | 100,000 | 100,000 | - | 100,000 | 189,360 | 89,360 |
| Public works and transportation: | - | 140,000 | 140,000 | - | 140,000 | 75,980 | (64,020) |
| Total Charges for Service | - | 11,176,090 | 11,176,090 | - | 11,176,090 | 10,389,923 | (786,167) |
| Fines and Forfeitures | - | 14,513,150 | 14,513,150 | - | 14,513,150 | 7,383,288 | (7,129,862) |
| Investment Income: | | | | | | | |
| Pooled investment income | - | 12,035,000 | 12,035,000 | - | 12,035,000 | 3,072,670 | (8,962,330) |
| Other interest income | - | 40,000 | 40,000 | - | 40,000 | 237,477 | 197,477 |
| Total Investment Income | - | 12,075,000 | 12,075,000 | - | 12,075,000 | 3,310,147 | (8,764,853) |
| Miscellaneous Revenue: | | | | | | | |
| Property rentals | - | 4,384,000 | 4,384,000 | - | 4,384,000 | 5,189,366 | 805,366 |
| Sundry | - | 5,020,150 | 5,020,150 | 12,349 | 5,032,499 | 3,740,219 | (1,292,280) |
| Total Miscellaneous Revenues: | - | 9,404,150 | 9,404,150 | 12,349 | 9,416,499 | 8,929,585 | (486,914) |
| Total Revenues | - | 1,859,741,550 | 1,859,741,550 | 87,598 | 1,859,829,148 | 1,850,919,378 | (8,909,770) |
| Expenditures: | | | | | | | |
| Departments or Offices: | | | | | | | |
| County Council: | | | | | | | |
| Personnel | - | 5,983,360 | 5,983,360 | (148,600) | 5,834,760 | 5,834,755 | 5 |
| Operating | 33,768 | 674,300 | 708,068 | (19,518) | 688,550 | 525,174 | 163,376 |
| Totals | 33,768 | 6,657,660 | 6,691,428 | (168,118) | 6,523,310 | 6,359,929 | 163,381 |
| Board of Appeals: | | | | | | | |
| Personnel | - | 421,760 | 421,760 | 5,730 | 427,490 | 427,481 | 9 |
| Operating | - | 58,700 | 58,700 | 1,950 | 60,650 | 60,641 | 9 |
| Totals | - | 480,460 | 480,460 | 7,680 | 488,140 | 488,122 | 18 |
| Legislative Oversight: | | | | | | | |
| Personnel | - | 637,300 | 637,300 | 2,190 | 639,490 | 604,774 | 34,716 |
| Operating | 633 | 99,750 | 100,383 | (633) | 99,750 | 50,228 | 49,522 |
| Totals | 633 | 737,050 | 737,683 | 1,557 | 739,240 | 655,002 | 84,238 |
| Merit System Protection Board: | | | | | | | |
| Personnel | - | 98,970 | 98,970 | - | 98,970 | 97,826 | 1,144 |
| Operating | - | 12,640 | 12,640 | - | 12,640 | 9,321 | 3,319 |
| Totals | - | 111,610 | 111,610 | - | 111,610 | 107,147 | 4,463 |

(Continued)

MONTGOMERY COUNTY, MARYLAND
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL, CONTINUED
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
Exhibit A-7

| | Budget | | | | | Actual | Variance Positive (Negative) |
|--|---|--------------|-------------------|------------|------------|------------|------------------------------------|
| | Prior Year Carryover Encumbrances | Current Year | Total Original | Revisions | Final | | |
| Zoning and Administrative Hearings: | | | | | | | |
| Personnel | \$ - | \$ 203,350 | \$ 203,350 | \$ (3,590) | \$ 199,760 | \$ 199,755 | \$ 5 |
| Operating | - | 187,240 | 187,240 | 36,200 | 223,440 | 223,437 | 3 |
| Totals | - | 390,590 | 390,590 | 32,610 | 423,200 | 423,192 | 8 |
| Inspector General: | | | | | | | |
| Personnel | - | 407,980 | 407,980 | 4,760 | 412,740 | 397,292 | 15,448 |
| Operating | 2,676 | 115,630 | 118,306 | (2,676) | 115,630 | 93,388 | 22,242 |
| Totals | 2,676 | 523,610 | 526,286 | 2,084 | 528,370 | 490,680 | 37,690 |
| People's Counsel: | | | | | | | |
| Personnel | - | 192,410 | 192,410 | 300 | 192,710 | 192,684 | 26 |
| Operating | - | 30,230 | 30,230 | (300) | 29,930 | 15,482 | 14,448 |
| Totals | - | 222,640 | 222,640 | - | 222,640 | 208,166 | 14,474 |
| Circuit Court: | | | | | | | |
| Personnel | - | 6,397,660 | 6,397,660 | (292,180) | 6,105,480 | 6,105,472 | 8 |
| Operating | 469,676 | 1,336,700 | 1,806,376 | 57,253 | 1,863,629 | 1,863,619 | 10 |
| Totals | 469,676 | 7,734,360 | 8,204,036 | (234,927) | 7,969,109 | 7,969,091 | 18 |
| State's Attorney: | | | | | | | |
| Personnel | - | 7,861,860 | 7,861,860 | 409,120 | 8,270,980 | 8,270,970 | 10 |
| Operating | 450 | 541,880 | 542,330 | (54,650) | 487,680 | 463,656 | 24,024 |
| Totals | 450 | 8,403,740 | 8,404,190 | 354,470 | 8,758,660 | 8,734,626 | 24,034 |
| County Executive: | | | | | | | |
| Personnel | - | 3,866,480 | 3,866,480 | (20,325) | 3,846,155 | 3,779,909 | 66,246 |
| Operating | 2,092 | 250,880 | 252,972 | 4,901 | 257,873 | 257,869 | 4 |
| Totals | 2,092 | 4,117,360 | 4,119,452 | (15,424) | 4,104,028 | 4,037,778 | 66,250 |
| Commission for Women: | | | | | | | |
| Personnel | - | 725,300 | 725,300 | 2,820 | 728,120 | 722,449 | 5,671 |
| Operating | - | 123,140 | 123,140 | - | 123,140 | 103,032 | 20,108 |
| Totals | - | 848,440 | 848,440 | 2,820 | 851,260 | 825,481 | 25,779 |
| Regional Service Centers: | | | | | | | |
| Personnel | - | 2,366,300 | 2,366,300 | 38,170 | 2,404,470 | 2,404,467 | 3 |
| Operating | 56,412 | 420,480 | 476,892 | 106,401 | 583,293 | 528,630 | 54,663 |
| Totals | 56,412 | 2,786,780 | 2,843,192 | 144,571 | 2,987,763 | 2,933,097 | 54,666 |
| Ethics Commission: | | | | | | | |
| Personnel | - | 161,410 | 161,410 | (16,140) | 145,270 | 126,310 | 18,960 |
| Operating | - | 27,070 | 27,070 | 16,140 | 43,210 | 43,177 | 33 |
| Totals | - | 188,480 | 188,480 | - | 188,480 | 169,487 | 18,993 |
| Intergovernmental Relations: | | | | | | | |
| Personnel | - | 437,810 | 437,810 | (20,000) | 417,810 | 386,811 | 30,999 |
| Operating | 4,610 | 151,080 | 155,690 | (161) | 155,529 | 122,484 | 33,045 |
| Capital outlay | - | - | - | 20,000 | 20,000 | 18,358 | 1,642 |
| Totals | 4,610 | 588,890 | 593,500 | (161) | 593,339 | 527,653 | 65,686 |
| Board of Liquor License Commissioners: | | | | | | | |
| Personnel | - | 734,470 | 734,470 | 1,460 | 735,930 | 735,922 | 8 |
| Operating | 501 | 90,670 | 91,171 | 18,430 | 109,601 | 109,601 | - |
| Totals | 501 | 825,140 | 825,641 | 19,890 | 845,531 | 845,523 | 8 |
| Public Information: | | | | | | | |
| Personnel | - | 1,007,560 | 1,007,560 | (110) | 1,007,450 | 1,007,446 | 4 |
| Operating | 44,704 | 101,400 | 146,104 | 69,267 | 215,371 | 215,361 | 10 |
| Totals | 44,704 | 1,108,960 | 1,153,664 | 69,157 | 1,222,821 | 1,222,807 | 14 |
| Board of Elections: | | | | | | | |
| Personnel | - | 1,698,350 | 1,698,350 | 411,350 | 2,109,700 | 2,109,695 | 5 |
| Operating | 5,359 | 2,332,580 | 2,337,939 | 113,362 | 2,451,301 | 2,451,295 | 6 |
| Totals | 5,359 | 4,030,930 | 4,036,289 | 524,712 | 4,561,001 | 4,560,990 | 11 |
| County Attorney: | | | | | | | |
| Personnel | - | 3,802,080 | 3,802,080 | (75,030) | 3,727,050 | 3,690,413 | 36,637 |
| Operating | 4,836 | 492,520 | 497,356 | 72,594 | 569,950 | 569,946 | 4 |
| Totals | 4,836 | 4,294,600 | 4,299,436 | (2,436) | 4,297,000 | 4,260,359 | 36,641 |
| Management and Budget: | | | | | | | |
| Personnel | - | 3,202,470 | 3,202,470 | (174,900) | 3,027,570 | 3,027,568 | 2 |
| Operating | 41,984 | 184,100 | 226,084 | - | 226,084 | 170,915 | 55,169 |
| Totals | 41,984 | 3,386,570 | 3,428,554 | (174,900) | 3,253,654 | 3,198,483 | 55,171 |
| Finance: | | | | | | | |
| Personnel | - | 6,977,830 | 6,977,830 | (206,080) | 6,771,750 | 6,771,748 | 2 |
| Operating | 343,959 | 958,170 | 1,302,129 | 66,997 | 1,369,126 | 1,368,810 | 316 |
| Totals | 343,959 | 7,936,000 | 8,279,959 | (139,083) | 8,140,876 | 8,140,558 | 318 |
| Human Resources: | | | | | | | |
| Personnel | - | 3,934,440 | 3,934,440 | 34,200 | 3,968,640 | 3,937,099 | 31,541 |
| Operating | 333,270 | 2,130,540 | 2,463,810 | (14,013) | 2,449,797 | 2,300,119 | 149,678 |
| Totals | 333,270 | 6,064,980 | 6,398,250 | 20,187 | 6,418,437 | 6,237,218 | 181,219 |
| Technology Services: | | | | | | | |
| Personnel | - | 12,245,140 | 12,245,140 | (485,190) | 11,759,950 | 11,759,940 | 10 |
| Operating | 6,022,096 | 7,892,840 | 13,914,936 | (244,354) | 13,670,582 | 13,585,986 | 84,596 |
| Capital outlay | 80,243 | 313,950 | 394,193 | 76,624 | 470,817 | 470,636 | 181 |
| Totals | 6,102,339 | 20,451,930 | 26,554,269 | (652,920) | 25,901,349 | 25,816,562 | 84,787 |
| Procurement: | | | | | | | |
| Personnel | - | 2,029,280 | 2,029,280 | 9,590 | 2,038,870 | 2,037,186 | 1,684 |
| Operating | 21,091 | 163,720 | 184,811 | (3,147) | 181,664 | 133,826 | 47,838 |
| Totals | 21,091 | 2,193,000 | 2,214,091 | 6,443 | 2,220,534 | 2,171,012 | 49,522 |
| Corrections and Rehabilitation: | | | | | | | |
| Personnel | - | 35,120,540 | 35,120,540 | 1,412,080 | 36,532,620 | 36,532,612 | 8 |
| Operating | 219,550 | 6,505,850 | 6,725,400 | 1,133,866 | 7,859,266 | 7,859,264 | 2 |
| Totals | 219,550 | 41,626,390 | 41,845,940 | 2,545,946 | 44,391,886 | 44,391,876 | 10 |

(Continued)

MONTGOMERY COUNTY, MARYLAND
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL, CONTINUED
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
Exhibit A-7

| | Budget | | | | | Actual | Variance Positive (Negative) |
|---|---|---------------|-------------------|--------------|---------------|---------------|------------------------------------|
| | Prior Year Carryover Encumbrances | Current Year | Total Original | Revisions | Final | | |
| Human Relations Commission: | | | | | | | |
| Personnel | \$ - | \$ 1,729,610 | \$ 1,729,610 | \$ (11,360) | \$ 1,718,250 | \$ 1,689,628 | \$ 28,622 |
| Operating | 1,060 | 107,810 | 108,870 | 19,040 | 127,910 | 90,549 | 37,361 |
| Totals | 1,060 | 1,837,420 | 1,838,480 | 7,680 | 1,846,160 | 1,780,177 | 65,983 |
| Police: | | | | | | | |
| Personnel | - | 120,346,520 | 120,346,520 | 8,751,210 | 129,097,730 | 129,097,729 | 1 |
| Operating | 1,357,143 | 21,601,850 | 22,958,993 | (1,468,474) | 21,490,519 | 20,082,395 | 1,408,124 |
| Totals | 1,357,143 | 141,948,370 | 143,305,513 | 7,282,736 | 150,588,249 | 149,180,124 | 1,408,125 |
| Sheriff: | | | | | | | |
| Personnel | - | 11,276,170 | 11,276,170 | (298,140) | 10,978,030 | 10,921,484 | 56,546 |
| Operating | 55,714 | 1,373,820 | 1,429,534 | 10,665 | 1,440,199 | 1,386,632 | 53,567 |
| Totals | 55,714 | 12,649,990 | 12,705,704 | (287,475) | 12,418,229 | 12,308,116 | 110,113 |
| Public Works and Transportation: | | | | | | | |
| Personnel | - | 29,406,280 | 29,406,280 | 287,490 | 29,693,770 | 29,693,760 | 10 |
| Operating | 4,826,361 | 26,926,960 | 31,753,321 | 7,790,514 | 39,543,835 | 39,505,694 | 38,141 |
| Capital outlay | 76,762 | 52,160 | 128,922 | (74,512) | 54,410 | 15,800 | 38,610 |
| Totals | 4,903,123 | 56,385,400 | 61,288,523 | 8,003,492 | 69,292,015 | 69,215,254 | 76,761 |
| Health and Human Services: | | | | | | | |
| Personnel | - | 84,619,080 | 84,619,080 | 504,565 | 85,123,645 | 84,867,808 | 255,837 |
| Operating | 2,224,512 | 63,151,810 | 65,376,322 | 2,726,555 | 68,102,877 | 67,492,120 | 610,757 |
| Totals | 2,224,512 | 147,770,890 | 149,995,402 | 3,231,120 | 153,226,522 | 152,359,928 | 866,594 |
| Libraries: | | | | | | | |
| Personnel | - | 23,600,290 | 23,600,290 | (492,140) | 23,108,150 | 23,108,149 | 1 |
| Operating | 1,428,493 | 6,925,860 | 8,354,353 | (22,308) | 8,332,045 | 8,332,037 | 8 |
| Totals | 1,428,493 | 30,526,150 | 31,954,643 | (514,448) | 31,440,195 | 31,440,186 | 9 |
| Housing and Community Affairs: | | | | | | | |
| Personnel | - | 6,026,310 | 6,026,310 | (193,550) | 5,832,760 | 5,832,753 | 7 |
| Operating | 604,631 | 682,340 | 1,286,971 | (601,915) | 685,056 | 684,684 | 372 |
| Totals | 604,631 | 6,708,650 | 7,313,281 | (795,465) | 6,517,816 | 6,517,437 | 379 |
| Economic Development: | | | | | | | |
| Personnel | - | 2,708,500 | 2,708,500 | 34,830 | 2,743,330 | 2,743,326 | 4 |
| Operating | 151,511 | 2,489,880 | 2,641,391 | (11,160) | 2,630,231 | 2,499,553 | 130,678 |
| Totals | 151,511 | 5,198,380 | 5,349,891 | 23,670 | 5,373,561 | 5,242,879 | 130,682 |
| Environmental Protection: | | | | | | | |
| Personnel | - | 2,696,520 | 2,696,520 | 17,670 | 2,714,190 | 2,697,910 | 16,280 |
| Operating | 599,852 | 1,155,500 | 1,755,352 | (361,087) | 1,394,265 | 1,053,879 | 340,386 |
| Totals | 599,852 | 3,852,020 | 4,451,872 | (343,417) | 4,108,455 | 3,751,789 | 356,666 |
| Total Departments | 19,013,949 | 532,587,440 | 551,601,389 | 18,952,051 | 570,553,440 | 566,570,729 | 3,982,711 |
| Nondepartmental: | | | | | | | |
| State retirement contribution - operating | - | 698,610 | 698,610 | - | 698,610 | 698,603 | 7 |
| Retirees group insurance - operating | - | 13,970,000 | 13,970,000 | - | 13,970,000 | 13,970,000 | - |
| State positions supplement - personnel | - | 242,800 | 242,800 | - | 242,800 | 241,054 | 1,746 |
| Judges special pension contribution - personnel | - | 38,860 | 38,860 | - | 38,860 | 36,205 | 2,655 |
| Compensation adjustment - personnel | - | 1,210,170 | 1,210,170 | (1,072,430) | 137,740 | 125,309 | 12,431 |
| Compensation adjustment - operating | - | 117,840 | 117,840 | - | 117,840 | 92,525 | 25,315 |
| Municipal tax duplication - operating | - | 5,015,550 | 5,015,550 | - | 5,015,550 | 5,015,544 | 6 |
| Tax grants to municipalities - operating | - | 28,020 | 28,020 | - | 28,020 | 28,012 | 8 |
| Rebate - Takoma Park police - operating | - | 400,130 | 400,130 | 24,870 | 425,000 | 424,995 | 5 |
| Rebate - Takoma Park library - operating | - | 86,140 | 86,140 | - | 86,140 | 84,590 | 1,550 |
| Homeowners' association roadways - operating | - | 306,340 | 306,340 | - | 306,340 | 306,340 | - |
| Contribution to risk management - operating | - | 6,709,000 | 6,709,000 | (414,310) | 6,294,690 | 6,294,683 | 7 |
| Support for the arts - operating | 3,877,095 | 1,082,500 | 4,959,595 | 194,343 | 5,153,938 | 5,153,933 | 5 |
| Historical activities - operating | - | 297,060 | 297,060 | - | 297,060 | 297,060 | - |
| Conference and Visitors Bureau - operating | 174,338 | 435,750 | 610,088 | (11,993) | 598,095 | 598,095 | - |
| Arts Council - operating | - | 1,109,920 | 1,109,920 | - | 1,109,920 | 1,076,539 | 33,381 |
| Community grants - operating | 1,080,414 | 4,472,740 | 5,553,154 | (93,406) | 5,459,748 | 5,447,687 | 12,061 |
| Conference Center | - | 200,000 | 200,000 | - | 200,000 | 40,000 | 160,000 |
| County associations - operating | - | 54,100 | 54,100 | - | 54,100 | 54,097 | 3 |
| Metropolitan Washington C O G - operating | - | 615,690 | 615,690 | - | 615,690 | 615,689 | 1 |
| Public Technology, Inc. - operating | - | 27,500 | 27,500 | - | 27,500 | 27,500 | - |
| Independent audit - operating | 52,976 | 270,000 | 322,976 | (29,476) | 293,500 | 293,500 | - |
| Prisoner medical services - operating | - | 20,000 | 20,000 | - | 20,000 | 4,644 | 15,356 |
| Boards, committees and commissions - operating | - | 5,000 | 5,000 | - | 5,000 | 4,187 | 813 |
| Charter Review Commission - operating | - | 400 | 400 | - | 400 | - | 400 |
| Closing costs assistance - operating | - | 215,060 | 215,060 | - | 215,060 | 208,600 | 6,460 |
| Working families income supplement - operating | - | 5,018,000 | 5,018,000 | (422,130) | 4,595,870 | 4,595,860 | 10 |
| Information technology initiatives - operating | 406,290 | 110,660 | 516,950 | (28) | 516,922 | 441,262 | 75,660 |
| Interagency technology, policy and coordinating committee - personnel | - | 128,900 | 128,900 | - | 128,900 | 103,233 | 25,667 |
| Interagency technology, policy and coordinating committee - operating | - | 38,310 | 38,310 | - | 38,310 | 28,212 | 10,098 |
| Inauguration & Transition - operating | - | 9,000 | 9,000 | 1,050 | 10,050 | 10,050 | - |
| Inauguration & Transition - personnel | - | - | - | 250 | 250 | 248 | 2 |
| Desktop computer modernization - operating | 342,714 | 6,174,050 | 6,516,764 | (421,096) | 6,095,668 | 6,095,661 | 7 |
| Utilities - operating | 410,079 | 11,407,720 | 11,817,799 | (116,626) | 11,701,173 | 11,701,166 | 7 |
| Total - Nondepartmental | 6,343,906 | 60,515,820 | 66,859,726 | (2,360,982) | 64,498,744 | 64,115,083 | 383,661 |
| Total Expenditures | 25,357,855 | 593,103,260 | 618,461,115 | 16,591,069 | 635,052,184 | 630,685,812 | 4,366,372 |
| Excess of Revenues over (under) Expenditures | (25,357,855) | 1,266,638,290 | 1,241,280,435 | (16,503,471) | 1,224,776,964 | 1,220,233,566 | (4,543,398) |

(Continued)

MONTGOMERY COUNTY, MARYLAND
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL, CONCLUDED
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
Exhibit A-7

| | Budget | | | | | Actual | Variance Positive (Negative) |
|---|-------------------------|-----------------|-------------------|-----------------|-----------------|-----------------|------------------------------------|
| | Prior Year Carryover | Current Year | Total Original | Revisions | Final | | |
| | Encumbrances | | | | | | |
| Other Financing Sources (Uses): | | | | | | | |
| Transfers In: | | | | | | | |
| Special Revenue Funds: | | | | | | | |
| Fire Tax District | \$ - | \$ 120,750 | \$ 120,750 | \$ - | \$ 120,750 | \$ 120,750 | \$ - |
| Recreation | - | 3,304,560 | 3,304,560 | - | 3,304,560 | 3,304,560 | - |
| Mass Transit | - | 4,931,910 | 4,931,910 | - | 4,931,910 | 4,931,910 | - |
| Water Quality Protection | - | 540,560 | 540,560 | - | 540,560 | 540,560 | - |
| Urban Districts | - | 191,680 | 191,680 | - | 191,680 | 191,680 | - |
| Housing Activities | - | 13,430 | 13,430 | - | 13,430 | 13,430 | - |
| Cable TV | - | 3,452,380 | 3,452,380 | - | 3,452,380 | 3,452,380 | - |
| Total Special Revenue Funds | - | 12,555,270 | 12,555,270 | - | 12,555,270 | 12,555,270 | - |
| Enterprise Funds: | | | | | | | |
| Liquor | - | 18,985,890 | 18,985,890 | - | 18,985,890 | 18,985,890 | - |
| Parking Lot Districts | - | 521,220 | 521,220 | - | 521,220 | 521,220 | - |
| Solid Waste Activities | - | 1,524,960 | 1,524,960 | - | 1,524,960 | 1,524,960 | - |
| Community Use of Public Facilities | - | 269,520 | 269,520 | - | 269,520 | 269,520 | - |
| Permitting Services | - | 8,575,490 | 8,575,490 | - | 8,575,490 | 8,575,490 | - |
| Total Enterprise Funds | - | 29,877,080 | 29,877,080 | - | 29,877,080 | 29,877,080 | - |
| Total Transfers In | - | 42,432,350 | 42,432,350 | - | 42,432,350 | 42,432,350 | - |
| Transfers In - Component Units: | | | | | | | |
| Montgomery County Public Schools | - | 522,610 | 522,610 | - | 522,610 | 522,610 | - |
| Housing Opportunities Commission | - | 103,750 | 103,750 | - | 103,750 | 103,750 | - |
| Total Transfers In - Component Units | - | 626,360 | 626,360 | - | 626,360 | 626,360 | - |
| Transfers (Out): | | | | | | | |
| Special Revenue Funds: | | | | | | | |
| Recreation | - | (1,059,080) | (1,059,080) | - | (1,059,080) | (1,059,080) | - |
| Urban Districts | - | (1,160,140) | (1,160,140) | (230,710) | (1,390,850) | (1,390,850) | - |
| Mass Transit | - | (993,100) | (993,100) | (6,216,000) | (7,209,100) | (7,209,100) | - |
| Housing Activities | - | (11,937,810) | (11,937,810) | - | (11,937,810) | (11,937,810) | - |
| Economic Development | - | (94,400) | (94,400) | (250,000) | (344,400) | (344,400) | - |
| Grants | - | - | - | (465,071) | (465,071) | (433,673) | 31,398 |
| Total Special Revenue Funds | - | (15,244,530) | (15,244,530) | (7,161,781) | (22,406,311) | (22,374,913) | 31,398 |
| Internal Service Fund: | | | | | | | |
| Motor Pool | - | (32,000) | (32,000) | (58,082) | (90,082) | (79,734) | 10,348 |
| Total Internal Service Funds | - | (32,000) | (32,000) | (58,082) | (90,082) | (79,734) | 10,348 |
| Enterprise Funds: | | | | | | | |
| Community Use of Public Facilities | - | (178,380) | (178,380) | - | (178,380) | (178,380) | - |
| Parking Lot Districts | (612,596) | - | (612,596) | - | (612,596) | - | 612,596 |
| Solid Waste Activities | - | (1,155,580) | (1,155,580) | - | (1,155,580) | (1,155,580) | - |
| Permitting Services | - | (1,034,820) | (1,034,820) | - | (1,034,820) | (1,034,820) | - |
| Total Enterprise Funds | (612,596) | (2,368,780) | (2,981,376) | - | (2,981,376) | (2,368,780) | 612,596 |
| Debt Service Fund | - | (172,550,170) | (172,550,170) | - | (172,550,170) | (168,474,195) | 4,075,975 |
| Capital Projects Fund | (38,812,908) | (16,435,490) | (55,248,398) | 7,476,491 | (47,771,907) | (15,012,594) | 32,759,313 |
| Total Transfers (Out) | (39,425,504) | (206,630,970) | (246,056,474) | 256,628 | (245,799,846) | (208,310,216) | 37,489,630 |
| Transfers (Out) - Component Units: | | | | | | | |
| Montgomery County Public Schools - operating | - | (1,066,260,268) | (1,066,260,268) | - | (1,066,260,268) | (1,066,260,268) | - |
| Montgomery County Public Schools - capital | (11,973,549) | (19,871,000) | (31,844,549) | (4,875,000) | (36,719,549) | (24,912,435) | 11,807,114 |
| Total Montgomery County Public Schools | (11,973,549) | (1,086,131,268) | (1,098,104,817) | (4,875,000) | (1,102,979,817) | (1,091,172,703) | 11,807,114 |
| Montgomery Community College - operating | - | (61,803,955) | (61,803,955) | - | (61,803,955) | (61,803,955) | - |
| Montgomery Community College - capital | (4,127,264) | (8,366,000) | (12,493,264) | - | (12,493,264) | (5,808,476) | 6,684,788 |
| Total Montgomery Community College | (4,127,264) | (70,169,955) | (74,297,219) | - | (74,297,219) | (67,612,431) | 6,684,788 |
| Housing Opportunity Commission - operating | - | (4,384,570) | (4,384,570) | - | (4,384,570) | (4,185,562) | 199,008 |
| Housing Opportunity Commission - capital | (296,270) | (150,000) | (446,270) | - | (446,270) | (373,254) | 73,016 |
| Total Housing Opportunity Commission | (296,270) | (4,534,570) | (4,830,840) | - | (4,830,840) | (4,558,816) | 272,024 |
| Total Transfers (Out) - Component Units | (16,397,083) | (1,160,835,793) | (1,177,232,876) | (4,875,000) | (1,182,107,876) | (1,163,343,950) | 18,763,926 |
| Total Other Financing Sources (Uses) | (55,822,587) | (1,324,408,053) | (1,380,230,640) | (4,618,372) | (1,384,849,012) | (1,328,595,456) | 56,253,556 |
| Excess of Revenues and Other Financing Sources over (under) Expenditures and Other Financing Uses | (81,180,442) | (57,769,763) | (138,950,205) | (21,121,843) | (160,072,048) | (108,361,890) | 51,710,158 |
| Fund Balance - Beginning of Year | 81,180,442 | 139,339,340 | 220,519,782 | (2,555,940) | 217,963,842 | 217,963,842 | - |
| Fund Balance - End of Year | \$ - | \$ 81,569,577 | \$ 81,569,577 | \$ (23,677,783) | \$ 57,891,794 | \$ 109,601,952 | \$ 51,710,158 |

Notes to Financial Statements are an integral part of this statement.

MONTGOMERY COUNTY, MARYLAND
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2003
Exhibit A-8

| | Business-Type Activities - Enterprise Funds | | | | | Governmental Activities - Internal Service Funds |
|---|---|--|-----------------------------|------------------------------|----------------|--|
| | Liquor | Solid Waste Disposal and Collection | Parking Lot Districts | Other Enterprise Funds | Totals | |
| ASSETS | | | | | | |
| Current Assets: | | | | | | |
| Equity in pooled cash and investments | \$ 4,741,479 | \$ 51,246,595 | \$ 27,742,305 | \$ 11,278,246 | \$ 95,008,625 | \$ 69,087,431 |
| Cash with fiscal agent | - | 109,740 | 31,061 | - | 140,801 | - |
| Cash | 32,375 | 3,000 | 150 | 50 | 35,575 | 300 |
| Receivables (net of allowances for uncollectibles): | | | | | | |
| Property taxes | - | - | 1,261,878 | - | 1,261,878 | - |
| Accounts | 2,297,676 | 3,163,802 | 5,693 | - | 5,467,171 | 120,998 |
| Notes | - | - | - | - | - | 61,984 |
| Parking violations | - | - | 1,823,271 | - | 1,823,271 | - |
| Due from other funds | - | 5,165 | - | - | 5,165 | 2,989,772 |
| Due from component units | - | 13,775 | 46,497 | - | 60,272 | 751,298 |
| Due from other governments | - | 115,822 | 193,364 | - | 309,186 | 225,613 |
| Inventory of supplies | 28,283,744 | - | - | - | 28,283,744 | 1,725,187 |
| Prepays | 473,788 | 5,500 | 11,276 | 1,402 | 491,966 | 665,409 |
| Other assets | 93,599 | - | - | - | 93,599 | - |
| Total Current Assets | 35,922,661 | 54,663,399 | 31,115,495 | 11,279,698 | 132,981,253 | 75,627,992 |
| Noncurrent Assets: | | | | | | |
| Restricted equity in pooled cash and investments | - | 31,483,785 | 5,613,114 | - | 37,096,899 | - |
| Restricted investments | - | 3,153,552 | - | - | 3,153,552 | - |
| Restricted Assets | - | 34,637,337 | 5,613,114 | - | 40,250,451 | - |
| Unamortized bond costs | - | 606,901 | 711,402 | - | 1,318,303 | - |
| Capital Assets: | | | | | | |
| Land, improved and unimproved | 481,430 | 17,834,755 | 34,517,183 | - | 52,833,368 | 22,506 |
| Improvements other than buildings | - | 72,111,664 | 33,088,619 | - | 105,200,283 | 268,565 |
| Buildings | 7,388,354 | 23,527,159 | 112,400,530 | - | 143,316,043 | 315,732 |
| Furniture, fixtures, equipment, and machinery | 5,636,556 | 9,395,786 | 236,049 | 4,195,201 | 19,463,592 | 3,912,748 |
| Automobiles and trucks | 3,040,123 | 472,163 | 91,763 | - | 3,604,049 | 58,754,633 |
| Construction in progress | - | - | 14,233,274 | - | 14,233,274 | - |
| Subtotal | 16,546,463 | 123,341,527 | 194,567,418 | 4,195,201 | 338,650,609 | 63,274,184 |
| Less: Accumulated depreciation | 9,691,888 | 86,746,822 | 61,546,886 | 3,745,986 | 161,731,582 | 39,969,444 |
| Total Capital Assets (net of accumulated depreciation) | 6,854,575 | 36,594,705 | 133,020,532 | 449,215 | 176,919,027 | 23,304,740 |
| Total Noncurrent Assets | 6,854,575 | 71,838,943 | 139,345,048 | 449,215 | 218,487,781 | 23,304,740 |
| Total Assets | 42,777,236 | 126,502,342 | 170,460,543 | 11,728,913 | 351,469,034 | 98,932,732 |
| LIABILITIES | | | | | | |
| Current Liabilities: | | | | | | |
| Accounts payable | 13,307,286 | 6,996,292 | 1,392,644 | 103,341 | 21,799,563 | 2,699,824 |
| Interest payable | - | 321,184 | 158,139 | - | 479,323 | - |
| Retainage payable | - | 63,957 | 1,041,104 | - | 1,105,061 | - |
| Deposits | 421,278 | - | 64,614 | - | 485,892 | - |
| Claims payable | - | - | - | - | - | 66,564,246 |
| Accrued liabilities | 1,439,182 | 715,140 | 295,618 | 7,760,325 | 10,210,265 | 2,705,885 |
| Due to other funds | 148,725 | 61,506 | 21,151 | 185,274 | 416,656 | 139,985 |
| Due to component units | - | - | - | 630,106 | 630,106 | 47,908 |
| Due to other governments | 393,043 | 840,570 | 6,460 | 9,869 | 1,249,942 | 10,304 |
| Deferred revenue | - | - | 55,019 | 675,378 | 730,397 | 71,844 |
| General obligation bonds payable | - | 84,251 | - | - | 84,251 | - |
| Revenue bonds payable | - | 2,555,000 | 5,210,000 | - | 7,765,000 | - |
| Landfill closure costs | - | 1,547,000 | - | - | 1,547,000 | - |
| Total Current Liabilities | 15,709,514 | 13,184,900 | 8,244,749 | 9,364,293 | 46,503,456 | 72,239,996 |
| Noncurrent Liabilities: | | | | | | |
| Notes payable | - | 800,000 | - | - | 800,000 | - |
| General obligation bonds payable | - | 108,131 | - | - | 108,131 | - |
| Revenue bonds payable | - | 28,378,152 | 41,979,981 | - | 70,358,133 | - |
| Landfill closure costs | - | 22,307,523 | - | - | 22,307,523 | - |
| Compensated absences | 306,385 | 133,149 | 64,116 | 343,578 | 847,228 | 285,441 |
| Total Noncurrent Liabilities | 306,385 | 51,726,955 | 42,044,097 | 343,578 | 94,421,015 | 285,441 |
| Total Liabilities | 16,015,899 | 64,911,855 | 50,288,846 | 9,707,871 | 140,924,471 | 72,525,437 |
| NET ASSETS | | | | | | |
| Invested in capital, net of related debt | 6,854,575 | 5,469,171 | 85,830,551 | 449,215 | 98,603,512 | 23,304,740 |
| Restricted for debt service | - | 34,637,337 | 5,613,114 | - | 40,250,451 | - |
| Unrestricted | 19,906,762 | 21,483,979 | 28,728,032 | 1,571,827 | 71,690,600 | 3,102,555 |
| Total net assets | 26,761,337 | 61,590,487 | 120,171,697 | 2,021,042 | 210,544,563 | 26,407,295 |
| Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds | | | | | (1,932,877) | |
| Net assets of business-type activities | | | | | \$ 208,611,686 | |

Notes to Financial Statements are an integral part of this statement.

MONTGOMERY COUNTY, MARYLAND
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
Exhibit A-9

| | Business-Type Activities - Enterprise Funds | | | | Governmental Activities - Internal Service Funds | |
|--|--|--|------------------------------|-------------------------------|---|----------------------|
| | Liquor | Solid Waste Disposal and Collection | Parking Lot Districts | Other Enterprise Funds | Totals | |
| OPERATING REVENUES | | | | | | |
| Sales - net | \$ 157,039,359 | \$ - | \$ - | \$ - | \$157,039,359 | \$ - |
| Charges for services | 15,115 | 91,278,438 | 13,398,038 | 6,581,427 | 111,273,018 | 152,373,740 |
| Licenses and permits | - | 10,145 | - | 18,174,345 | 18,184,490 | - |
| Fines and penalties | - | 57,835 | 5,675,067 | 101,425 | 5,834,327 | - |
| Claim recoveries | - | - | - | - | - | 1,135,437 |
| Total Operating Revenues | <u>157,054,474</u> | <u>91,346,418</u> | <u>19,073,105</u> | <u>24,857,197</u> | <u>292,331,194</u> | <u>153,509,177</u> |
| OPERATING EXPENSES | | | | | | |
| Cost of goods sold | 112,091,755 | - | - | - | 112,091,755 | - |
| Personnel costs | 15,198,483 | 8,941,780 | 2,759,562 | 16,056,101 | 42,955,926 | 14,744,716 |
| Postage | 46,231 | 109,115 | 2,808 | - | 158,154 | 1,602,864 |
| Self-insurance incurred and estimated claims | - | - | - | - | - | 80,688,803 |
| Insurance | 474,333 | 72,470 | 40,310 | 8,070 | 595,183 | 32,813,330 |
| Supplies and materials | 469,247 | 234,904 | 297,163 | 354,353 | 1,355,667 | 11,864,451 |
| Contractual services | 1,538,216 | 74,249,023 | 4,191,763 | 3,573,656 | 83,552,658 | 9,227,892 |
| Communications | 228,817 | 187,945 | 117,814 | 318,250 | 852,826 | 152,190 |
| Transportation | 352,260 | 253,577 | 156,162 | 391,048 | 1,153,047 | 107,451 |
| Public utility service | 393,516 | 92,247 | 900,053 | 435,930 | 1,821,746 | 490,907 |
| Rentals | 3,177,498 | 20,763 | 1,254,601 | 1,199,584 | 5,652,446 | 356,163 |
| Maintenance | 666,691 | 441,024 | 1,976,119 | 809,104 | 3,892,938 | 7,189,118 |
| Depreciation and amortization | 719,893 | 3,093,559 | 5,549,220 | 519,498 | 9,882,170 | 5,126,008 |
| Landfill closure expense | - | 298,000 | - | - | 298,000 | - |
| Other | 366,166 | 469,254 | 111,416 | 81,035 | 1,027,871 | 512,381 |
| Total Operating Expenses | <u>135,723,106</u> | <u>88,463,661</u> | <u>17,356,991</u> | <u>23,746,629</u> | <u>265,290,387</u> | <u>164,876,274</u> |
| Operating Income (Loss) | <u>21,331,368</u> | <u>2,882,757</u> | <u>1,716,114</u> | <u>1,110,568</u> | <u>27,040,807</u> | <u>(11,367,097)</u> |
| NONOPERATING REVENUES (EXPENSES) | | | | | | |
| Property taxes | - | - | 7,096,856 | - | 7,096,856 | - |
| Intergovernmental | - | - | - | 51,154 | 51,154 | - |
| Gain (loss) on disposal of capital assets | - | 58,750 | - | - | 58,750 | 277,825 |
| Investment income | - | 2,231,742 | 625,466 | 212,016 | 3,069,224 | 1,200,847 |
| Interest expense | - | (2,120,598) | (2,262,131) | - | (4,382,729) | - |
| Other revenue | 4,728 | 79,883 | 1,903,312 | - | 1,987,923 | 34,971 |
| Total Nonoperating Revenues (Expenses) | <u>4,728</u> | <u>249,777</u> | <u>7,363,503</u> | <u>263,170</u> | <u>7,881,178</u> | <u>1,513,643</u> |
| Nonoperating Income (Loss) | <u>21,336,096</u> | <u>3,132,534</u> | <u>9,079,617</u> | <u>1,373,738</u> | <u>34,921,985</u> | <u>(9,853,454)</u> |
| Special Item: | | | | | | |
| Depreciation adjustment | - | 241,534 | - | 357,931 | 599,465 | 956,978 |
| Loss on disposal of capital asset | - | - | (3,938,026) | - | (3,938,026) | - |
| Total Special Item | <u>-</u> | <u>241,534</u> | <u>(3,938,026)</u> | <u>357,931</u> | <u>(3,338,561)</u> | <u>956,978</u> |
| Income (Loss) before Transfers | <u>21,336,096</u> | <u>3,374,068</u> | <u>5,141,591</u> | <u>1,731,669</u> | <u>31,583,424</u> | <u>(8,896,476)</u> |
| Transfers In (Out): | | | | | | |
| Transfers in | - | - | 11,776,945 | - | 11,776,945 | 646,873 |
| Transfers out | (19,078,037) | (1,524,960) | (4,926,864) | (8,845,010) | (34,374,871) | - |
| Total Transfers In (Out) | <u>(19,078,037)</u> | <u>(1,524,960)</u> | <u>6,850,081</u> | <u>(8,845,010)</u> | <u>(22,597,926)</u> | <u>646,873</u> |
| Change in Net Assets | 2,258,059 | 1,849,108 | 11,991,672 | (7,113,341) | 8,985,498 | (8,249,603) |
| Total Net Assets - Beginning of Year | <u>24,503,278</u> | <u>59,741,379</u> | <u>108,180,025</u> | <u>9,134,383</u> | | <u>34,656,898</u> |
| Total Net Assets - End of Year | <u>\$ 26,761,337</u> | <u>\$ 61,590,487</u> | <u>\$ 120,171,697</u> | <u>\$ 2,021,042</u> | | <u>\$ 26,407,295</u> |
| Adjustment to reflect the consolidation of internal service fund activities relating to enterprise funds | | | | | (311,192) | |
| Change in net assets of business-type activities | | | | | <u>\$ 8,674,306</u> | |

Notes to Financial Statements are an integral part of this statement.

MONTGOMERY COUNTY, MARYLAND
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
Exhibit A-10

| | Business-Type Activities - Enterprise Funds | | | | | Governmental Activities - Internal Service Funds |
|---|--|--|------------------------------|-------------------------------|-----------------------|---|
| | Liquor | Solid Waste Disposal and Collection | Parking Lot Districts | Other Enterprise Funds | Totals | |
| CASH FLOWS FROM OPERATING ACTIVITIES | | | | | | |
| Receipts from customers | \$ 160,106,687 | \$ 89,987,951 | \$ 20,853,209 | \$23,900,291 | \$ 294,848,138 | \$ 152,654,003 |
| Payments to suppliers | (126,290,071) | (75,011,841) | (10,435,846) | (6,812,292) | (218,550,050) | (67,673,865) |
| Payments to employees | (14,949,349) | (8,894,364) | (2,746,220) | (15,930,239) | (42,520,172) | (14,551,620) |
| Internal activity - payments from other funds | - | 1,155,580 | - | 1,034,820 | 2,190,400 | - |
| Claims paid | - | - | - | - | - | (72,268,726) |
| Other revenue | 4,728 | 79,883 | 159,936 | 399,116 | 643,663 | - |
| Net Cash Provided (Used) by Operating Activities | <u>18,871,995</u> | <u>7,317,209</u> | <u>7,831,079</u> | <u>2,591,696</u> | <u>36,611,979</u> | <u>(1,840,208)</u> |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES | | | | | | |
| Property tax collections | - | - | 7,115,018 | - | 7,115,018 | - |
| Operating subsidies and transfers to other funds | (19,078,037) | (1,524,960) | (4,926,864) | (8,845,010) | (34,374,871) | - |
| Intergovernmental revenue | - | - | - | 51,154 | 51,154 | - |
| Net Cash Provided (Used) by Noncapital Financing Activities | <u>(19,078,037)</u> | <u>(1,524,960)</u> | <u>2,188,154</u> | <u>(8,793,856)</u> | <u>(27,208,699)</u> | <u>-</u> |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | | | | | | |
| Proceeds from sale of capital assets | - | 58,750 | - | - | 58,750 | 335,085 |
| Purchases of capital assets | (469,793) | (2,998,563) | (7,749,445) | (102,403) | (11,320,204) | (4,733,240) |
| Principal paid on capital debt | - | (2,409,851) | (5,435,000) | - | (7,844,851) | - |
| Interest paid on capital debt | - | (1,086,790) | (2,155,509) | - | (3,242,299) | - |
| Proceeds from notes receivable | - | - | - | - | - | 21,666 |
| Internal activity - payments from other funds | - | - | - | - | - | 646,873 |
| Net Cash Provided (Used) by Capital and Related Financing Activities | <u>(469,793)</u> | <u>(6,436,454)</u> | <u>(15,339,954)</u> | <u>(102,403)</u> | <u>(22,348,604)</u> | <u>(3,729,616)</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | | | | |
| Investment income from pooled investments | - | 1,548,455 | 624,579 | 212,016 | 2,385,050 | 1,197,357 |
| Investment income from nonpooled investments | - | 224,270 | 887 | - | 225,157 | 3,490 |
| Net Cash Provided (Used) by Investing Activities | <u>-</u> | <u>1,772,725</u> | <u>625,466</u> | <u>212,016</u> | <u>2,610,207</u> | <u>1,200,847</u> |
| Net Increase (Decrease) in Cash and Cash Equivalents | <u>(675,835)</u> | <u>1,128,520</u> | <u>(4,695,255)</u> | <u>(6,092,547)</u> | <u>(10,335,117)</u> | <u>(4,368,977)</u> |
| Balances - Beginning of Year | 5,449,689 | 81,714,600 | 38,081,885 | 17,370,843 | 142,617,017 | 73,456,708 |
| Balances - End of Year | <u>\$ 4,773,854</u> | <u>\$ 82,843,120</u> | <u>\$ 33,386,630</u> | <u>\$ 11,278,296</u> | <u>\$ 132,281,900</u> | <u>\$ 69,087,731</u> |
| Reconciliation of operating income (loss) to net cash provided by operating activities: | | | | | | |
| Operating income (loss) | \$ 21,331,368 | \$ 2,882,757 | \$ 1,716,114 | \$ 1,110,568 | \$ 27,040,807 | \$ (11,367,097) |
| Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities: | | | | | | |
| Depreciation | 719,893 | 3,093,559 | 5,549,220 | 519,498 | 9,882,170 | 5,126,008 |
| Other revenue | 4,728 | 79,883 | 159,936 | - | 244,547 | 34,971 |
| Changes in assets and liabilities: | | | | | | |
| Receivables, net | (388,369) | (202,887) | 1,776,476 | - | 1,185,220 | (664,073) |
| Inventories, prepaids and other assets | (3,343,878) | 1,000 | 3,628 | - | (3,339,250) | (441,536) |
| Accounts payable and other liabilities | 335,744 | 1,441,564 | (1,380,899) | 410,311 | 806,720 | 5,160,159 |
| Accrued expenses | 212,509 | 21,333 | 6,604 | 551,319 | 791,765 | 311,360 |
| Net Cash Provided (Used) by Operating Activities | <u>\$ 18,871,995</u> | <u>\$ 7,317,209</u> | <u>\$ 7,831,079</u> | <u>\$ 2,591,696</u> | <u>\$ 36,611,979</u> | <u>\$ (1,840,208)</u> |
| Noncash investing, capital and financing activities: | | | | | | |
| Refunding of revenue bonds | \$ - | \$ 31,825,000 | \$ - | \$ - | \$ 31,825,000 | \$ - |
| Revenue bonds issued as a result of refunding | - | 31,075,000 | - | - | 31,075,000 | - |
| Capital asset disposals | - | - | 3,938,026 | - | 3,938,026 | - |
| Assets acquired through transfers from governmental activities | - | - | 13,563,825 | - | 13,563,825 | - |

Notes to Financial Statements are an integral part of this statement.

MONTGOMERY COUNTY, MARYLAND
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2003
Exhibit A-11

| | Pension and Other Employee Benefit Trusts | Investment Trust | Private- Purpose Trusts | Agency Funds |
|--|--|-----------------------------|--|-------------------------|
| ASSETS | | | | |
| Current Assets: | | | | |
| Equity in pooled cash and investments | \$ 2,392,498 | \$ 24,071,770 | \$ 2,512,432 | \$ 37,790,559 |
| Cash | - | - | - | 79,717 |
| Investments | 2,195,285,888 | - | - | - |
| Receivables: | | | | |
| Property taxes | - | - | - | 6,963,783 |
| Accounts | 6,948 | - | - | 32,543 |
| Other | 108,324 | - | - | 377,013 |
| Due from other funds | 4,237,685 | - | - | - |
| Due from component units | 85,979 | - | - | - |
| Due from other governments | 19,677 | - | - | - |
| Prepays | 705 | - | 75,000 | - |
| Total Current Assets | <u>2,202,137,704</u> | <u>24,071,770</u> | <u>2,587,432</u> | <u>45,243,615</u> |
| Noncurrent Assets: | | | | |
| Capital Assets: | | | | |
| Furniture, fixtures, equipment, and machinery | 111,375 | - | - | - |
| Less: Accumulated depreciation | <u>111,375</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Total Capital Assets (net of accumulated depreciation) | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Total Assets | <u>2,202,137,704</u> | <u>24,071,770</u> | <u>2,587,432</u> | <u>\$ 45,243,615</u> |
| LIABILITIES | | | | |
| Current Liabilities: | | | | |
| Accounts payable | 235,386,015 | - | 5,776 | 7,100 |
| Accrued liabilities | 192,007 | - | - | - |
| Deposits | - | - | - | 646,349 |
| Due to other funds | 2,098 | - | - | - |
| Due to other governments | - | - | - | 1,506,431 |
| Uncollected property taxes due to other governments | - | - | - | 6,963,783 |
| Undistributed taxes and refunds | - | - | - | 11,159,424 |
| Deferred revenue | 159,404 | - | - | - |
| Tax sale surplus and redemptions payable | - | - | - | 4,090,226 |
| Other liabilities | - | - | - | 20,870,302 |
| Total Current Liabilities | <u>235,739,524</u> | <u>-</u> | <u>5,776</u> | <u>45,243,615</u> |
| Noncurrent Liabilities: | | | | |
| Compensated absences | <u>49,560</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Total Liabilities | <u>235,789,084</u> | <u>-</u> | <u>5,776</u> | <u>\$ 45,243,615</u> |
| NET ASSETS | | | | |
| Held in trust for pension benefits, external investment pool participants, and other purposes | <u>\$ 1,966,348,620</u> | <u>\$ 24,071,770</u> | <u>\$ 2,581,656</u> | |

Notes to Financial Statements are an integral part of this statement.

MONTGOMERY COUNTY, MARYLAND
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
Exhibit A-12

| | Pension and Other Employee Benefit Trusts | Investment Trust | Private- Purpose Trusts |
|--------------------------------|--|-----------------------------|--|
| ADDITIONS | | | |
| Contributions: | | | |
| Employers | \$ 62,004,408 | \$ - | \$ - |
| Members | 39,582,146 | - | 861,186 |
| Share purchases | - | 9,275,076 | - |
| Total Contributions | <u>101,586,554</u> | <u>9,275,076</u> | <u>861,186</u> |
| Investment income | 96,418,292 | 436,372 | 28,201 |
| Less: investment expenses | <u>7,796,767</u> | <u>-</u> | <u>-</u> |
| Net Investment Income | <u>88,621,525</u> | <u>436,372</u> | <u>28,201</u> |
| Other income - forfeitures | <u>179,273</u> | <u>-</u> | <u>-</u> |
| Total Additions, net | <u>190,387,352</u> | <u>9,711,448</u> | <u>889,387</u> |
| DEDUCTIONS | | | |
| Benefits: | | | |
| Annuities: | | | |
| Retirees | 77,008,990 | - | - |
| Survivors | 4,811,473 | - | - |
| Disability | <u>18,559,929</u> | <u>-</u> | <u>-</u> |
| Total Benefits | <u>100,380,392</u> | <u>-</u> | <u>-</u> |
| Share redemptions | - | 9,754,000 | - |
| Member refunds | 12,709,731 | - | - |
| Program expenses | - | - | 560,408 |
| Administrative expenses | <u>2,234,691</u> | <u>-</u> | <u>-</u> |
| Total Deductions | <u>115,324,814</u> | <u>9,754,000</u> | <u>560,408</u> |
| Net Increase (Decrease) | 75,062,538 | (42,552) | 328,979 |
| Net Assets - Beginning of Year | <u>1,891,286,082</u> | <u>24,114,322</u> | <u>2,252,677</u> |
| Net Assets - End of Year | <u>\$ 1,966,348,620</u> | <u>\$ 24,071,770</u> | <u>\$ 2,581,656</u> |

Notes to Financial Statements are an integral part of this statement.

MONTGOMERY COUNTY, MARYLAND
STATEMENT OF NET ASSETS
COMPONENT UNITS
JUNE 30, 2003
Exhibit A-13

| | MCPS | HOC | Nonmajor Component Units | Total |
|--|-------------------------|-----------------------|-----------------------------|-------------------------|
| ASSETS | | | | |
| Equity in pooled cash and investments | \$ 9,220,435 | \$ 7,071,745 | \$ 23,173,131 | \$ 39,465,311 |
| Cash with fiscal agents | 50,645 | 22,347,178 | - | 22,397,823 |
| Cash | 9,820,243 | 17,203 | 2,536,377 | 12,373,823 |
| Investments - cash equivalents | 16,841,483 | 27,458,601 | 31,622,523 | 75,922,607 |
| Investments | 2,804,851 | - | - | 2,804,851 |
| Receivables (net of allowances for uncollectables): | | | | |
| Capital leases | - | - | 19,101,173 | 19,101,173 |
| Accounts | 12,433,477 | 2,855,935 | 1,738,760 | 17,028,172 |
| Notes | - | 38,355 | - | 38,355 |
| Mortgages | - | 255,664,332 | - | 255,664,332 |
| Interest | - | 3,988,630 | - | 3,988,630 |
| Other | 1,497,143 | 3,611,375 | 1,463,239 | 6,571,757 |
| Due from primary government | 30,182,264 | 1,222,722 | 4,922,087 | 36,327,073 |
| Due from other governments | 27,592,032 | 1,156,406 | 4,149,421 | 32,897,859 |
| Inventory of supplies | 7,584,685 | 521,066 | 1,431,272 | 9,537,023 |
| Prepays | 200,624 | 1,286,900 | 197,434 | 1,684,958 |
| Deferred charges | - | - | 743,556 | 743,556 |
| Other assets | - | 21,994,542 | 184,510 | 22,179,052 |
| Restricted Assets: | | | | |
| Equity in pooled cash and investments | - | 12,008,003 | - | 12,008,003 |
| Cash with fiscal agents | - | 13,172,502 | - | 13,172,502 |
| Cash | - | - | 178,377 | 178,377 |
| Investments - cash equivalents | - | 102,802,245 | 17,676,542 | 120,478,787 |
| Investments | - | 188,706,806 | - | 188,706,806 |
| Capital assets: | | | | |
| Nondepreciable assets | 167,656,789 | 67,001,881 | 63,448,857 | 298,107,527 |
| Depreciable assets, net | 1,085,576,093 | 275,556,747 | 135,940,921 | 1,497,073,761 |
| Total Assets | <u>1,371,460,764</u> | <u>1,008,483,174</u> | <u>308,508,180</u> | <u>2,688,452,118</u> |
| LIABILITIES | | | | |
| Accounts payable | 61,127,171 | 8,943,260 | 7,287,632 | 77,358,063 |
| Interest payable | 14,540 | 14,529,062 | 811,802 | 15,355,404 |
| Retainage payable | 7,269,905 | - | 987,811 | 8,257,716 |
| Accrued liabilities | - | 3,564,288 | 466,160 | 4,030,448 |
| Claims payable | 20,955,038 | - | - | 20,955,038 |
| Deposits | - | 8,013,086 | 66,992 | 8,080,078 |
| Due to primary government | 22,086,306 | 35,900,457 | 3,397,625 | 61,384,388 |
| Deferred revenue | 5,491,702 | 14,374,454 | 4,178,748 | 24,044,904 |
| Other liabilities | - | 9,511,169 | 68,320 | 9,579,489 |
| Noncurrent liabilities: | | | | |
| Due within one year | 16,715,050 | 58,129,857 | 3,339,994 | 78,184,901 |
| Due in more than one year | 88,375,949 | 685,781,698 | 83,880,725 | 858,038,372 |
| Total Liabilities | <u>222,035,661</u> | <u>838,747,331</u> | <u>104,485,809</u> | <u>1,165,268,801</u> |
| NET ASSETS | | | | |
| Invested in capital assets, net of related debt | 1,229,332,240 | 47,971,825 | 170,380,361 | 1,447,684,426 |
| Restricted for: | | | | |
| Capital projects | - | - | 311,576 | 311,576 |
| Debt Service | - | 58,683,709 | 5,690,976 | 64,374,685 |
| Other purposes | 187,201 | 3,586,461 | 1,961,505 | 5,735,167 |
| Unrestricted (deficit) | (80,094,338) | 59,493,848 | 25,677,953 | 5,077,463 |
| Total net assets | <u>\$ 1,149,425,103</u> | <u>\$ 169,735,843</u> | <u>\$ 204,022,371</u> | <u>\$ 1,523,183,317</u> |

Notes to Financial Statements are an integral part of this statement.

MONTGOMERY COUNTY, MARYLAND
STATEMENT OF ACTIVITIES
COMPONENT UNITS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
Exhibit A-14

| Functions | Expenses | Program Revenues | | | Net (Expense) Revenue and Changes in Net Assets | | | |
|--|-------------------------|-----------------------|------------------------------------|----------------------------------|---|-----------------------|--------------------------|-------------------------|
| | | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions | MCPS | HOC | Nonmajor Component Units | Total |
| | | | | | | | | |
| Component Units: | | | | | | | | |
| General government | \$ 2,533,481 | \$ 2,205,683 | \$ 185,063 | \$ - | \$ - | \$ - | \$ (142,735) | \$ (142,735) |
| Culture and recreation | 13,245,221 | 10,529,269 | - | 38,544 | - | - | (2,677,408) | (2,677,408) |
| Community development and housing | 162,223,661 | 101,682,670 | 66,130,607 | 3,900,740 | - | 9,490,356 | - | 9,490,356 |
| Education: | | | | | | | | |
| Secondary education | 1,573,488,788 | 29,810,860 | 124,705,678 | 31,504,220 | (1,387,468,030) | - | - | (1,387,468,030) |
| Higher education | 164,373,640 | 51,832,401 | 15,092,583 | 2,353,031 | - | - | (95,095,625) | (95,095,625) |
| Total component units | <u>\$ 1,915,864,791</u> | <u>\$ 196,060,883</u> | <u>\$ 206,113,931</u> | <u>\$ 37,796,535</u> | <u>(1,387,468,030)</u> | <u>9,490,356</u> | <u>(97,915,768)</u> | <u>(1,475,893,442)</u> |
| General revenues: | | | | | | | | |
| Grants and contributions not restricted to specific programs | | | | | 1,397,294,717 | - | 122,190,263 | 1,519,484,980 |
| Investment Income | | | | | 388,332 | 1,219,446 | 676,803 | 2,284,581 |
| Gain on sale of capital assets | | | | | - | - | 3,577 | 3,577 |
| Total general revenues | | | | | <u>1,397,683,049</u> | <u>1,219,446</u> | <u>122,870,643</u> | <u>1,521,773,138</u> |
| Change in net assets | | | | | 10,215,019 | 10,709,802 | 24,954,875 | 45,879,696 |
| Net assets - beginning | | | | | 1,139,210,084 | 159,026,041 | 179,067,496 | 1,477,303,621 |
| Net assets - ending | | | | | <u>\$ 1,149,425,103</u> | <u>\$ 169,735,843</u> | <u>\$ 204,022,371</u> | <u>\$ 1,523,183,317</u> |

Notes to Financial Statements are an integral part of this statement.

MONTGOMERY COUNTY, MARYLAND

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2003

NOTE I – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- A REPORTING ENTITY
- B GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS
- C MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL
STATEMENT PRESENTATION
- D ASSETS, LIABILITIES, AND NET ASSETS OR EQUITY

NOTE II – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

- A BUDGETARY INFORMATION
- B DEFICIT FUND EQUITY

NOTE III – DETAILED NOTES ON ALL FUNDS

- A CASH AND INVESTMENTS
- B RECEIVABLES
- C CAPITAL ASSETS
- D INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS
- E LEASES
- F LONG-TERM DEBT
- G SEGMENT INFORMATION
- H FUND EQUITY
- I SIGNIFICANT TRANSACTIONS WITH DISCRETELY PRESENTED
COMPONENT UNITS
- J SPECIAL ITEMS

NOTE IV – OTHER INFORMATION

- A RISK MANAGEMENT
- B SIGNIFICANT COMMITMENTS AND CONTINGENCIES
- C SUBSEQUENT EVENTS
- D JOINT VENTURES
- E EMPLOYEE BENEFITS
- F PENSION PLAN OBLIGATIONS

NOTE I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the County conform to accounting principles generally accepted in the United States of America (GAAP) applicable to local government entities. The following is a summary of significant policies:

A) Reporting Entity

Background

Montgomery County, Maryland (County) is a charter government under the constitution and general laws of the State of Maryland (State). The charter provides for separate legislative and executive branches with legislative responsibility vested in an elected nine-member county council and executive responsibility vested in an elected county executive. The County provides its citizens with services in areas of general government, public safety, public works and transportation, health and human services, education, culture and recreation, community development and housing, and environment.

As required by GAAP, these financial statements present the primary government and its component units, which are entities for which the primary government is considered financially accountable. The Montgomery County, Maryland, reporting entity is determined by criteria established by the Governmental Accounting Standards Board (GASB). The judgment to include or exclude activities is dependent on evaluation of the GASB criteria. Various departments and agencies governed directly by the County Executive and the County Council of Montgomery County are included in the reporting entity as the primary government and are referred to hereafter as the Primary Government. The component units (as discussed below) are included in the reporting entity because the Primary Government approves the budget requests, provides a significant amount of funding for each of these units, and/or appoints the governing boards.

Discretely Presented Component Units

The financial data of the County's component units are discretely presented in a column separate from the financial data of the primary government, to emphasize that the component units are legally separate from the Primary Government. Financial information regarding the component units is included in the component units combining statements. The following are the County's component units, each of which has a June 30 fiscal year-end:

Montgomery County Public Schools (MCPS) provides public education in kindergarten through twelfth grade to children residing within Montgomery County. Members of the Board of Education are elected by the voters. (One nonvoting student member is elected by secondary students.) However, MCPS is fiscally dependent upon the Primary Government because the Primary Government approves the budget, levies taxes to provide the majority of the fiscal support, and issues debt for construction of school facilities.

Montgomery Community College (MCC) provides educational services to County citizens by offering two-year associate degrees and a continuing education program. MCC is responsible for post secondary education within the government's jurisdiction. The Montgomery County Board of Community College trustees is the governing authority. The State Governor appoints the trustees from a list of candidates supplied by a nominating committee. The nominating committee is controlled by the County Executive and the County Council. Therefore, essentially the Primary Government and the State Governor must agree upon the trustees to serve on the College's Governing Board. In addition, the County Council reviews and approves both the operating and capital budgets and budgetary amendments of MCC. The Primary

Government contributes substantial funding for both the operating and capital budgets, as well as issues debt for the construction of college facilities.

Montgomery County Revenue Authority (MCRA) is governed by a five-member Board of Directors. All members are appointed by the County Executive subject to the confirmation of the County Council. The County Council approves the capital budget of MCRA. MCRA approves its own operating budget. MCRA is an instrumentality of the Primary Government for the purpose of constructing, improving, and maintaining self-sustaining projects devoted to public use, good or welfare.

Housing Opportunities Commission of Montgomery County (HOC) is governed by seven commissioners who are appointed by the County Executive with the approval of the County Council. In addition, the County Council provides for a subsidy to the operating budget of HOC and guarantees a relatively small portion of its debt (up to \$50,000,000). The HOC operating budget approval occurs on a project basis, with the County Council having authority to approve project budgets that include County funding. HOC presents its proposed budget to the Council for review and comment only, as required by Article 44A, Section 2 of the Annotated Code of Maryland. Even though there is a large dependence on the Federal Department of Housing and Urban Development (HUD), HOC has sufficient financial accountability to the Primary Government to be included as a component unit.

Bethesda Urban Partnership, Inc (BUPI) has its entire eleven-member Board of Directors appointed by the County Executive with the approval of the County Council. The primary purpose of BUPI, a not-for-profit corporation, is to execute service contracts for the benefit of one of the Primary Government's special taxing districts (Bethesda Urban District). Substantially all of BUPI's funding is granted through the Primary Government's operating budget. The County Council annually approves the BUPI operating budget and is able to modify it in a manner similar to the way Primary Government agency budgets are modified.

Complete financial statements can be obtained at the component units' administrative offices listed below:

| | | |
|---|--|--|
| Montgomery County Public Schools 850 Hungerford Drive Rockville, MD 20850 | Montgomery Community College 900 Hungerford Drive Rockville, MD 20850 | Montgomery County Revenue Authority 101 Monroe Street, 4 th Floor Rockville, MD 20850 |
| Housing Opportunities Commission of Montgomery County, Maryland 10400 Detrick Avenue Kensington, MD 20895-2484 | Bethesda Urban Partnership, Inc. 7700 Old Georgetown Road Bethesda, MD 20814 | |

Joint Ventures

The following organizations are considered joint ventures of the County: Maryland-National Capital Park and Planning Commission (M-NCPPC), Washington Suburban Sanitary Commission (WSSC), Washington Suburban Transit Commission (WSTC), Washington Metropolitan Area Transit Authority (WMATA), Metropolitan Washington Council of Governments (COG), and Northeast Maryland Waste Disposal Authority (NEMWDA). Disclosure of the County's participation in these joint ventures is presented in Note IV-D.

Complete financial statements can be obtained at the joint ventures' administrative offices listed below:

| | | |
|--|--|---|
| Maryland-National Capital Park and Planning Commission 6611 Kenilworth Avenue Riverdale, MD 20737 | Washington Suburban Sanitary Commission 14501 Sweitzer Lane Laurel, MD 20707 | Washington Suburban Transit Commission 8720 Georgia Avenue, Suite 904 Silver Spring, MD 20910 |
| Washington Metropolitan Area Transit Authority 600 Fifth Street, NW Washington, DC 20001 | Metropolitan Washington Council of Governments 777 N. Capitol Street, NE, #300 Washington, DC 20002 | Northeast Maryland Waste Disposal Authority 25 South Charles Street, Suite 2105 Baltimore, MD 21201-3330 |

B) Government-Wide and Fund Financial Statements

Government-Wide Financial Statements – The government-wide financial statements report information on all of the nonfiduciary activities of the Primary Government and its component units. Since by definition, assets of fiduciary funds are being held for the benefit of a third party (other local governments, private parties, pension participants, etc.) and cannot be used to address activities or obligations of the County, these funds are not incorporated into the government-wide statements. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities of the Primary Government, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

Statement of Net Assets – This statement is designed to display the financial position of the reporting entity as of year-end. Governments report all capital assets, including infrastructure, in the government-wide Statement of Net Assets and report depreciation expense – the cost of “using up” capital assets – in the Statement of Activities. Net assets are divided into three categories – 1) invested in capital assets, net of related debt; 2) restricted; and 3) unrestricted.

Statement of Activities – This statement demonstrates the degree to which the direct expenses of a given function or segment for the fiscal year are offset by program revenues. Therefore, this statement reflects both the gross and net costs per functional category (general government, public safety, public works and transportation, health and human services, culture and recreation, community development and housing, environment, and education) that are otherwise being supported by general revenues. Direct expenses (including depreciation) are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment, and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported as general revenues. The County does not allocate indirect expenses. The operating grants column includes operating-specific and discretionary (either operating or capital) grants while the capital grants column reflects capital-specific grants.

Fund Financial Statements – Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

In the fund financial statements, financial transactions and accounts of the County are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise assets, liabilities, fund balance/net assets, revenues, and expenditures/expenses.

General Fund Budget-to-Actual Comparison Statement - Demonstrating compliance with the adopted budget is an important component of a government's accountability to the public. Many citizens participate in the process of establishing the annual operating budgets of state and local governments, and have a keen interest in following the financial progress of their governments over the course of the year. For this reason, the County has chosen to make its General Fund budget-to-actual comparison statement part of the basic financial statements. The County and many other governments revise their original budgets over the course of the year for a variety of reasons; such revisions are reflected in a separate column in this statement.

C) **Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

Measurement Focus and Basis of Accounting

Full Accrual Basis Financial Statements - The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund (except agency fund) financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year in which they are levied. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met. Capital assets and related depreciation are also recorded in these statements.

Modified Accrual Basis Financial Statements – Agency fund financial statements are reported using the modified accrual basis of accounting. Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. In the governmental funds, revenues are recorded as soon as they are susceptible to accrual (both measurable and available). Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payment has matured and is due. Similarly, expenditures related to claims and judgments and compensated absences are recorded only to the extent that they are expected to be liquidated with expendable available financial resources. Also, capital assets and related depreciation and long-term liabilities are not recorded in these statements.

In applying the susceptible to accrual concept to income taxes (distributed by the State), property taxes, and intergovernmental revenues other than grants, the County defines “available” to mean received within 30 days after year-end.

In the State of Maryland, the State has assumed the responsibility for the collection of all income taxes and for distributing those collections to the respective counties. The counties set their individual tax rates within limits provided by State law. However, collections and pursuit of delinquent taxes are the responsibility of the State. The County records estimated receivables relating to income taxes when the underlying income is earned. Amounts not received within 30 days are reported as deferred revenue. At year-end, deferred revenue relating to income taxes primarily includes the final fiscal year quarterly distribution (which is normally received in August or September after the fiscal year-end), and amounts related to late filers, delinquent returns and audits, and unallocated withholding, not received within the

County's availability period. Most deferred revenue is expected to be received from the State within the next fiscal year; however, collections related to delinquent returns and audits and unallocated withholding may not occur and be remitted to the County for several years.

In applying the susceptible to accrual concept to operating and capital grants, classified with intergovernmental revenues in the fund financial statements, the County records receivables when the applicable eligibility requirements including time requirements are met. Related revenues are recognized to the extent that cash is expected to be received within one year of year-end. Resources received before the eligibility requirements are met are reported as deferred revenue.

Charges for services, licenses and permits, fines and penalties, and miscellaneous revenues (except earnings on investments) are generally recorded as revenues when received in cash during the year. At year-end, receivables are recorded for significant amounts due. If such amounts are received in cash after year-end within the County's 30 day availability period, they are recognized as revenue; if not, such amounts are reported as deferred revenue.

Financial Statement Presentation

The County reports the following major governmental funds:

General Fund - This fund is the general operating fund of the County. It is used to account for all financial resources except those required to be accounted for in another fund.

Debt Service Fund - This fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs. Special assessment activities are accounted for in the Debt Service Fund for practical purposes because they differ significantly from traditional special assessment practices. The principal and interest collected annually on such assessments are used as a partial source of funding for debt service on all outstanding general obligation road and storm drainage bonds. The remaining debt service requirement is financed from current governmental revenues and transfers, generally from the General Fund.

Capital Projects Fund - This fund accounts for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds).

The County reports the following major enterprise funds:

Liquor Enterprise Fund - This fund accounts for the operations of twenty-four liquor stores and the Montgomery County Liquor Warehouse. The Montgomery County Department of Liquor Control has a monopoly on the sale of alcoholic beverages within the County.

Solid Waste Disposal and Collection Enterprise Fund - This fund accounts for the fiscal activity of all solid waste disposal operations, including recycling, for the County. The fund utilizes the Dickerson, Maryland Resource Recovery Facility for refuse incineration, in combination with the out-of-County landfill haul and local recycling operations, to meet its disposal and recycling requirements. The fund also accounts for the fiscal activity related to County contracted refuse collection within the Solid Waste Collection District. This district is essentially comprised of the higher density, non-municipal, residential areas of the County.

Parking Lot Districts Enterprise Fund - This fund accounts for the fiscal activity related to serving the parking needs of the people who work and shop in the four central business districts zoned for commercial or industrial use identified as Silver Spring, Bethesda, Wheaton, and Montgomery Hills.

Additionally, the County reports the following fund types:

Other Governmental Funds - The other governmental fund types used by the County are special revenue and permanent. Special revenue funds are used to account for specific revenues that are legally restricted for particular purposes. Permanent funds account for resources that are legally restricted to the extent that only earnings, and not principal, may be used for purposes that support the County's programs.

Internal Service Funds - These funds are used to account for the financing of goods or services provided by one department or agency to other departments or to other governmental units, on a cost-reimbursement basis. There are four Internal Service Funds reported by the County: Motor Pool, Liability and Property Coverage Self-Insurance, Employee Health Benefits Self-Insurance, and Central Duplicating.

The County reports the following fiduciary fund types:

Pension and Other Employee Benefit Trust Fund - This fund is used to account for all activities of the Employees' Retirement System of Montgomery County (defined benefit plan), Employees' Retirement Savings Plan (defined contribution plan) and Deferred Compensation Plan, including accumulation of resources for, and payment of, retirement annuities and/or other benefits and administrative costs.

Investment Trust Fund - This fund accounts for the portion of the external investment pool, sponsored by the County, that belongs to participating governments that are not part of the County reporting entity.

Private-Purpose Trust Funds - These funds are used to account for funds whose principal and interest are legally held in trust and must be expended in accordance with their designated purposes.

Agency Funds - These funds are used to account for assets, such as property taxes, held in a purely custodial capacity, where the County receives, temporarily invests, and remits such resources to individuals, private organizations, or other governments.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of GASB. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The County has elected not to follow subsequent private-sector guidance.

In the process of aggregating data for the Statement of Net Assets and the Statement of Activities, some amounts reported as interfund activity and balances in the funds should be eliminated or reclassified. As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Assets and liabilities of internal service funds are included in governmental activities in the Statement of Net Assets. The effect of interfund services provided and used between functions has not been eliminated in the Statement of Activities, since to do so would distort the direct costs and program revenues reported for the various functions concerned.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise funds and of the internal service funds are charges to customers for sales and services. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The County generally first uses restricted assets for expenses incurred for which both restricted and unrestricted assets are available. The County may defer the use of restricted assets based on a review of the specific transaction.

D) Assets, Liabilities, and Net Assets or Equity

1) Cash and Investments

Pooled Cash and Investments – The County sponsors an external investment pool. Participants in the pool include the County, certain component unit agencies, and other legally separate entities. The portion of pooled cash and investments applicable to other legally separate entities (not included in the County reporting entity) is accounted for in a separate Investment Trust Fund. During the year, investments are stated at cost plus accrued interest and are adjusted for amortization of premiums and accretion of discounts. At year-end, investments in the pool are adjusted to fair value. See Note III-A for additional information.

Non-pooled Investments:

Governmental Fund Types – Investments of the Housing Opportunities Commission (HOC) Treasury Bonds Permanent Fund (a Primary Government fund) are stated at fair value.

Proprietary Fund Types – The Solid Waste Disposal and Collection Enterprise Fund investment is a U.S. Government security which is stated at fair value.

Pension and Other Employee Benefit Trust Fiduciary Fund Type – Investments are stated at fair value determined primarily on the basis of market quotations. If the quotations are not readily available then investments may be valued by another method which reflects fair value. Pension investments are comprised of an actively managed pool of equities, bonds, real estate commingled funds, and short-term securities, and passively managed index funds, managed by professional investment advisory firms under contract with the Board of Investment Trustees. Commingled funds are pooled investment vehicles. The Employees' Retirement System Pension and Other Employee Benefit Trust Fund (System) invests in derivatives, in accordance with the policy of the Board of Investment Trustees. The policy prohibits the investment in derivatives for the purpose of leveraging its investment portfolio. During FY03, investments in derivatives included asset-backed securities, collateralized mortgage obligations, bond index future contracts, forward currency contracts, and floating rate securities. The System entered into these investments either to increase earnings or to hedge against potential losses, but these investments were not used to leverage the portfolio. These investments generally contain market risk resulting from fluctuations in interest and currency rates. The credit risk of these investments is associated with the credit worthiness of the related parties to the contracts. The System also participates in securities lending transactions (see Note III-A).

Cash and Cash Equivalents – For Statement of Cash Flows reporting purposes, the County has defined “cash equivalents” as short-term, highly liquid investments that are both readily convertible to known amounts of cash and so near their maturity that they present insignificant risk of changes in value because of changes in interest rates. Generally, only investments with original maturities of three months or less meet this definition. The balance sheet classification for “cash and cash equivalents” in the Statement of Cash Flows includes the following: “Equity in pooled cash and investments,” “Cash,” “Cash with fiscal agents,” and “Restricted Equity in pooled cash and investments.”

2) Receivables and Payables

Due from/To Other Funds and Internal Balances – Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the year are current and are referred to as “due to/from other funds.” All other outstanding balances between funds are also reported as “due to/from other funds.” Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as “internal balances.”

Trade Accounts Receivable – Trade and other receivables are shown net of an allowance for uncollectibles. The allowance for uncollectibles is calculated based on historical collection data and, in some cases, specific account analysis.

3) Inventories and Prepaids

Inventories – Inventories are valued at lower of cost (principally first-in, first-out) or market in the Liquor Enterprise Fund and consist of goods held for sale. Inventories valued at cost (principally moving-average) are carried in the Motor Pool Internal Service Fund and the governmental fund types. All inventories are maintained by perpetual records and adjusted by annual physical counts. Inventories in the governmental funds and Motor Pool Internal Service Fund consist of items held for consumption. The cost is recorded as an expenditure at the time individual items are withdrawn for use. In governmental funds, the reserve for inventory is equal to the amount of inventory to indicate that portion of fund balance which is not available for funding other expenditures.

Prepaids – Payments made to vendors for services that will benefit periods beyond the end of the fiscal year are recorded as prepaids.

4) Restricted Assets

Certain proceeds of the County’s bonds, as well as certain resources set aside for revenue bond repayment, are classified as restricted assets because their use is limited by applicable bond covenants.

5) Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, curbs and gutters, streets and sidewalks, drainage systems, lighting systems, and similar items) are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. The County defines capital assets as assets with an initial, individual cost of \$5,000 or more, and an estimated useful life in excess of one year. Such assets are valued at cost

where historical records are available and at estimated historical cost where no historical records exist. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest is capitalized on proprietary fund assets acquired with tax-exempt debt. The amount of interest to be capitalized is calculated by offsetting interest expense incurred from the date of the borrowing until completion of the project with interest earned on invested proceeds over the same period.

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

| <u>Assets</u> | <u>Years</u> |
|-----------------------------------|--------------|
| Buildings and structures | 20 – 40 |
| Parking garages | 30 |
| Improvements other than buildings | 3 – 40 |
| Infrastructure | 20 – 60 |
| Machinery and equipment | 3 – 20 |
| Office furniture and fixtures | 3 – 15 |
| Automobiles and trucks | 2 – 15 |

6) Compensated Absences

Vested or accumulated vacation leave that is expected to be liquidated with expendable available financial resources has been determined by the County to be immaterial and is therefore not reported as an expenditure and a liability of the governmental fund that will pay the leave. Vested or accumulated vacation leave is reported as a liability and expense in the government-wide financial statements and proprietary fund types in the fund financial statements, along with the corresponding employer's share of social security and medicare taxes. Based on a historical analysis of leave usage, 75% and 25% of such accrued leave is classified as current and long-term, respectively. In the proprietary fund financial statements, the current portion of compensated absences is classified as accrued liabilities. Such amounts have been reclassified to non-current liabilities (due within one year and due in more than one year) in the government-wide financial statements. No liability is recorded for nonvesting accumulating rights to receive sick pay benefits.

7) Long-Term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statements of net assets. Bond premiums and discounts are deferred and amortized over the life of the bonds using the bonds outstanding method. Bonds payable in the proprietary fund financial statements and noncurrent liabilities in the government-wide financial statements are reported net of the applicable bond premium or discount. Bond issuance costs are generally reported as a deferred asset and amortized over the term of the related debt using the straight-line method.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures.

8) Fund Equity

In the government-wide financial statements, the County has reported negative unrestricted net assets. This is due to the fact that the County issues general obligation bonded debt for purposes of capital construction on behalf of MCPS, MCC, and M-NCPPC. The capital assets related to component units are reported on the financial statements of MCPS and MCC, and this amount is also classified as net assets invested in capital, net of related debt (of which there is none) in the Component Units column of the government-wide Statement of Net Assets (Exhibit A-1). For Primary Government purposes, since the issuance of such debt has not resulted in a capital asset, the effect of this debt is reflected in unrestricted net assets (deficit) in the Governmental Activities column of the government-wide Statement of Net Assets. At June 30, 2003, the County has reported outstanding general obligation debt related to MCPS, MCC, and M-NCPPC amounting to \$809,194,115. Absent the effect of this relationship, the County would have reported positive unrestricted net assets of governmental activities in the amount of \$346,349,524.

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. However, long-term receivables in the Grants Special Revenue Fund, a nonmajor governmental fund, have not met the “available” criteria for revenue recognition, and are, therefore, offset by deferred revenue rather than reserved fund balance. Designations of fund balance represent tentative management plans that are subject to change.

9) Property Taxes

Real and personal property taxes are levied at rates enacted by the County Council in the tax levy resolution on the assessed value as determined by the Maryland State Department of Assessments and Taxation. State law stipulates that the constant yield tax rate furnished by the Maryland State Department of Assessments and Taxation cannot be exceeded without public notice of the intent to exceed, and only after public hearings. The general property tax rate was levied above the constant yield rate for FY03. Following the Fairness in Taxation (FIT) legislation, the County Charter requires an affirmative vote of seven members of the Council to increase the real property tax rate to a level that will produce total revenues exceeding the total revenue produced by the tax on real property in the preceding year, plus 100 percent of any increase in the Consumer Price Index with exemptions for revenue from newly constructed, rezoned property and development district tax to fund capital improvement projects. The tax rate did not exceed the Charter limit for FY03.

Generally, property taxes are levied as of July 1 and become delinquent on October 1. Interest and penalty amounts are assessed annually at 20 percent on delinquent tax bills. Effective July 2000, owner-occupied residential property owners began paying their tax on a semi-annual schedule; the first and second installments for FY02 were due September 30, 2001 and December 31, 2001, respectively. Taxpayers may opt to make both semi-annual payments on or before September 30th.

The County collects delinquent real property taxes through a public tax lien sale. Tax liens, representing delinquent taxes on real property are sold in random groups, utilizing a sealed bid process, on the second Monday in June, when taxes have remained overdue since the preceding October 1st or in the case of a semi-annual schedule, January 1st.

NOTE II. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A) Budgetary Information

Overview

Annual appropriated operating budgets are adopted for the General Fund, Debt Service Fund, substantially all Special Revenue Funds, Enterprise Funds, the Liability and Property Coverage Self-Insurance Internal Service Fund, and the Employee Health Benefits Self-Insurance Internal Service Fund. The Capital Projects Fund budget is appropriated at the project level on a biennial basis. All unencumbered appropriations except for those related to Federal and State grants and those related to the Capital Projects Fund lapse at year-end.

Encumbrance accounting is employed for budgetary purposes in the governmental and proprietary funds. Encumbrances (purchase orders and contracts awarded for which goods and services have not been received at year-end), and other commitments for the expenditure of funds are recorded in order to reserve that portion of the appropriation. In the governmental funds for GAAP purposes, outstanding encumbrances are reported as a reservation of fund balance because they do not constitute expenditures or liabilities. In the proprietary funds, encumbrances are eliminated for GAAP financial statement presentation since neither goods nor services have been provided. For GAAP purposes, all encumbrances are charged to expenditures/expenses in the period in which goods or services are received.

Approval

Pursuant to the Montgomery County Charter, the Capital Improvements Program (CIP), is presented to the County Council by January 15 in even numbered years. An Amended CIP is presented to the County Council by January 15 in odd numbered years. The annual capital budget, with the CIP or Amended CIP, is presented to the County Council by January 15 of every year and the operating budget is presented to the County Council by March 15 of every year. The County Council holds public hearings and, pursuant to the County Charter, an annual appropriation resolution must be passed by the County Council by June 1. This resolution becomes effective for the one-year period beginning the following July 1. For the operating budget, the annual resolution provides the spending authority at the department level in three major categories (personnel costs, operating and capital outlay) with the unencumbered appropriation authority expiring the following June 30. Encumbered appropriations are reappropriated and carried forward to the subsequent fiscal year. With the exception of the Grants Special Revenue Fund (see Note IV-H1), such encumbrances are reserved as part of the current fiscal year's fund balance. For the capital projects budget, the annual resolution provides spending authority at the project level. The unencumbered appropriation of the CIP budget is reappropriated in the following year's budget unless specifically closed out by County Council action.

The County Executive has authority to transfer appropriations within departments up to 10 percent of the original appropriation. Transfers between departments are also limited to 10 percent of original appropriation and require County Council action. During the operating year the County Council may adopt a supplemental appropriation if recommended by the County Executive and after holding a public hearing. Supplemental appropriations enacted during the first half of the fiscal year require: five Councilmember

votes if they are to avail the County of, or put into effect the provision of Federal, State, or local legislation or regulation; or six Councilmember votes for any other purpose. During the operating year the County Council may also adopt, with six Councilmember votes, special appropriations to meet an unforeseen disaster or other emergency or to act without delay in the public interest. Special appropriations require only public notice by news release. During FY03, the County Council increased the operating budget through supplemental and special appropriations by \$47.7 million. In addition, supplemental appropriations decreased the CIP budget by \$26.3 million.

Presentation

The basis used to prepare the legally adopted budget is different from GAAP in a number of ways, including the following:

- Encumbrances outstanding are charged to budgetary appropriations and considered expenditures of the current period; any cancellations of such encumbrances in a subsequent year are classified with miscellaneous revenue for budgetary purposes.
- Certain activity, such as unrealized gains (losses), is not budgeted due to its nature.
- Certain interfund revenues/expenditures are classified as transfers for budget purposes.
- Mortgages and loans made and related repayments are generally accounted for as expenditures/other financial uses and revenues/other financing sources, respectively.
- Certain activity is not budgeted by the County, since it is included in the budget of a component unit that is legally adopted by the County Council, such as certain pass-through expenditures, and bond proceeds and related transfers to MCPS and MCC.

Adjustments necessary to reconcile the General Fund budgetary and GAAP statements are as follows:

| | Revenues | Expenditures and Encumbrances | Other Financing Sources (Uses) | Effect on Fund Balance |
|--|-------------------------|-------------------------------------|--------------------------------------|---------------------------|
| General Fund: | | | | |
| As reported - budgetary basis | \$ 1,850,919,378 | \$ 630,685,812 | \$ (1,328,595,456) | \$ (108,361,890) |
| Reconciling items: | | | | |
| Cancellation of prior year encumbrances | (2,555,940) | - | - | (2,555,940) |
| Elimination of encumbrances outstanding | - | (16,783,091) | - | 16,783,091 |
| Unrealized gains (losses) | 1,752,107 | - | - | 1,752,107 |
| Elimination of certain grant activity | 13,995 | - | (6,607) | 7,388 |
| Financing under capital lease | - | - | 11,776,945 | 11,776,945 |
| Transfer to Silver Spring Parking Lot District | - | - | (11,776,945) | (11,776,945) |
| Interfund activities budgeted as transfers: | | | | |
| Recreation facility maintenance costs | 919,040 | - | (919,040) | - |
| Public agency permits | - | 1,034,820 | 1,034,820 | - |
| Solid waste tipping fees | - | 1,155,580 | 1,155,580 | - |
| Community use of public facilities for elections | - | 178,380 | 178,380 | - |
| Water Quality Protection loan repayment | - | - | (458,710) | (458,710) |
| Component Unit activities budgeted as transfers: | | | | |
| Component Units - Transfer in | 626,360 | - | (626,360) | - |
| Component Units - Transfer out | - | 1,163,343,950 | 1,163,343,950 | - |
| As reported - GAAP basis | <u>\$ 1,851,674,940</u> | <u>\$ 1,779,615,451</u> | <u>\$ (164,893,443)</u> | <u>\$ (92,833,954)</u> |

B) Deficit Fund Equity

Internal Service Fund – The \$10,273,483 unreserved deficit in the Liability and Property Coverage Self-Insurance Internal Service Fund is primarily caused by an unanticipated increase both in claims incurred and paid during the year, and in incurred but not reported claims as determined by the actuary. The deficit will be recovered by charging participating agencies higher insurance premium rates in future years.

NOTE III. DETAILED NOTES ON ALL FUNDS

A) Cash and Investments

1) Authorization and Balances

The Montgomery County reporting entity total cash and investments as of June 30, 2003, totaled \$3,331,814,477, of which \$2,844,305,587 is related to the Primary Government, as presented below and in the government-wide financial statements. These funds are held in several pools, various non-pooled investments, and cash funds. The following is a schedule of total cash and investments:

| | Primary Government | Component Units | Total Reporting Entity |
|--|-------------------------|-----------------------|---------------------------|
| <u>Statement of Net Asset Amounts:</u> | | | |
| Equity in pooled cash and investments | \$ 551,582,319 | \$ 39,465,311 | \$ 591,047,630 |
| Cash with fiscal agents | 49,710,378 | 22,397,823 | 72,108,201 |
| Cash | 303,257 | 12,373,823 | 12,677,080 |
| Investments - cash equivalents | - | 75,922,607 | 75,922,607 |
| Investments | 2,202,459,182 | 2,804,851 | 2,205,264,033 |
| Restricted equity in pooled cash and investments | 37,096,899 | 12,008,003 | 49,104,902 |
| Restricted cash with fiscal agents | - | 13,172,502 | 13,172,502 |
| Restricted cash | - | 178,377 | 178,377 |
| Restricted investments - cash equivalents | - | 120,478,787 | 120,478,787 |
| Restricted investments | 3,153,552 | 188,706,806 | 191,860,358 |
| Total | <u>\$ 2,844,305,587</u> | <u>\$ 487,508,890</u> | <u>\$ 3,331,814,477</u> |
| <u>Deposit and Investment Summary:</u> | | | |
| Deposits | \$ 28,880,088 | \$ 18,604,816 | \$ 47,484,904 |
| Investments | 2,765,411,864 | 321,703,890 | 3,087,115,754 |
| Cash on hand, fiscal agents, safe deposit escrow | 50,013,635 | 147,200,184 | 197,213,819 |
| Total | <u>\$ 2,844,305,587</u> | <u>\$ 487,508,890</u> | <u>\$ 3,331,814,477</u> |

Primary government cash and investments reconciles to the basic financial statements as follows:

| | |
|-----------------|-------------------------|
| Government-wide | \$ 582,172,723 |
| Fiduciary funds | <u>2,262,132,864</u> |
| Total | <u>\$ 2,844,305,587</u> |

PRIMARY GOVERNMENT

External Investment Pool - The County, through its external investment pool, maintains an active and sophisticated cash and investment management program. The primary objectives of the program are the preservation of capital, providing liquidity to meet financial obligations, and maximization of the investment yield on short-term working capital. Working capital is managed pursuant to the Annotated Code of Maryland, the County Code, and the County's investment policies as approved by the County Council. The County is authorized to invest in: a) obligations for which the United States has pledged its full faith and credit for the payment of principal and interest, b) obligations that a federal agency or instrumentality issues in accordance with an act of Congress, or c) repurchase agreements that any of the foregoing listed obligations secures. Cited statutes also authorize investments in bankers' acceptances, secured certificates of deposit issued by Maryland banks, commercial paper of the highest investment grade, money market funds whose portfolio is operated consistent with the Securities and Exchange Commission rule 2a-7, and the Maryland Local Government Investment Pool (MLGIP). The County requires that these money market funds invest only in obligations that a federal agency or instrumentality issues in accordance with an act of Congress and repurchase agreements collateralized by an obligation of the United States, its agencies or instrumentalities. The average maturity of the County's working capital portfolio is generally less than six months.

These same statutes require that securities underlying certificates of deposit and repurchase agreements have a market value of at least 102 percent of the cost of the investment. A third party custodian holds the collateral underlying all repurchase agreements. Appropriate sections of these cited statutes also require that funds on deposit in financial institutions be fully secured. The form of such security shall be in compliance with State statute and the County Code. Collateral pledged for protection of these banking deposits is held in the County's name in a third party depository, in the trust department of pledging banks, or insured by a surety bond by a State approved insurance company.

Deposits throughout the fiscal year were fully insured or collateralized. There were no unusual variations in the mix or volume of the investment portfolio throughout the year. The County was in compliance with all applicable investment statutes throughout the fiscal year.

The County's external investment pool is not subject to regulatory oversight by the SEC. However, the pool is subject to oversight by the County's investment committee.

Participants in the pool include the County, certain component unit agencies, and other legally separate entities. The equity position of each fund and component unit is reported as an asset by the funds and component units. The external portion of the pool (i.e., participation by legally separate entities) is reported as the Investment Trust Fund in the accompanying financial statements. Participants' shares sold and redeemed during the year are based on actual cost; participants' shares are then adjusted to fair value at year-end. The County has not provided or obtained any legally binding guarantees during the year to support the value of shares.

During the year, investments are stated at cost plus accrued interest and are adjusted for amortization of premiums and accretion of discounts. Investments are marked-to-market at year-end, since the pool does not meet the strict definition of "2a-7 like". The fair value of U. S. Government securities, commercial paper and bankers' acceptances are provided by the County's custodian, which are based on various industry standard pricing sources. Fair value of investments in repurchase agreements are estimated based on consideration of composite quoted market prices, with comparable collateral or

credit quality, as appropriate. For interest-bearing investments, market value quotations did not include accrued interest. However, for reporting purposes, immaterial amounts of accrued interest have been classified with the fair value of investments in the accompanying financial statements.

Investment income during the year, and the adjustment to fair value at year-end, is allocated to pool participants based upon their average equity in the pool. The adjustment to fair value for FY03 related to all County funds (exclusive of legally separate entities' accounts reflected in the Investment Trust Fund) has been recorded in the General Fund, since this amount is not material.

External investment pool amounts, included in the schedule above, are as follows:

| | Primary Government | Component Units | Total Reporting Entity |
|--|-----------------------|----------------------|---------------------------|
| <u>Balance Sheet Amounts:</u> | | | |
| Equity in pooled cash and investments | \$ 551,582,319 | \$ 11,485,768 | \$ 563,068,087 |
| Restricted equity in pooled cash and investments | 37,096,899 | - | 37,096,899 |
| Total | <u>\$ 588,679,218</u> | <u>\$ 11,485,768</u> | <u>\$ 600,164,986</u> |
| <u>Deposit and Investment Summary:</u> | | | |
| Deposits | \$ 28,880,088 | \$ - | \$ 28,880,088 |
| Investments | 559,799,130 | 11,485,768 | 571,284,898 |
| Total | <u>\$ 588,679,218</u> | <u>\$ 11,485,768</u> | <u>\$ 600,164,986</u> |

A summary of investments is as follows:

| | Fair Value | Principal | Maturity Range | Interest Rate Range |
|--------------------------------|-----------------------|-----------------------|-------------------|------------------------|
| <u>Investment Type:</u> | | | | |
| Repurchase agreements | \$ 179,948,151 | \$ 180,000,000 | 07/03 | .98 - 1.27% |
| U.S. Government securities | 68,902,050 | 69,108,689 | 07/03 - 05/04 | 1.00 - 1.50% |
| Commercial paper | 26,983,550 | 26,966,038 | 07/03 | 1.12 - 1.35% |
| Bankers' acceptances | 154,700,728 | 154,443,294 | 07/03 - 12/03 | 1.01 - 1.28% |
| Money market funds | 140,750,419 | 140,750,419 | N/A | 1.10 - 1.14% |
| Total | <u>\$ 571,284,898</u> | <u>\$ 571,268,440</u> | | |

During FY03, the County's external investment pool participated in the MLGIP; as of year-end, the County is no longer a participant in the MLGIP. The County's pension trust securities lending transactions, as described below, also participated in an external investment pool.

Securities Lending Transactions – Montgomery County Code and Maryland State statutes allow the Employees' Retirement System of Montgomery County, Maryland (MCERS) to participate in securities lending transactions, and MCERS has, via a Securities Lending Authorization Agreement, authorized The Northern Trust Company (Northern) to lend its securities to broker-dealers and banks pursuant to a form of loan agreement.

During FY03, Northern lent, at the direction of the Board of Investment Trustees, MCERS' securities and received cash (both United States and foreign currency), United States government securities, sovereign debt of foreign countries and irrevocable bank letters of credit as collateral. Northern did not have the ability to pledge or sell those collateral securities delivered unless there was a borrower default. Borrowers were required for each loan to deliver collateral amounting to 102 percent and 105 percent of the market value of the securities plus any accrued interest on the United States and foreign securities, respectively. MCERS did not impose any restriction during FY03 on the amount of loans that Northern made on its behalf. Northern indemnifies the System by agreeing to purchase

replacement securities, or return the cash collateral thereof, in the event a borrower fails to return loaned securities or pay distributions thereon. There were no failures by any borrowers to return loaned securities or pay distributions thereon during FY03. Moreover, there were no losses during FY03 resulting from default of the borrowers or Northern. During FY03, MCERS and the borrowers maintained the right to terminate all securities lending transactions on demand.

The cash collateral was invested at the direction of MCERS in the cash collateral fund of the Northern Core USA Collateral Section (the "Fund"). The Fund is accounted for on an amortized cost basis. The majority of the investments of the Fund consist of money market instruments which mature within one year. The Fund is not registered with the Securities and Exchange Commission but the Fund complies with a substantial majority of the requirements of SEC Rule 2a-7. Northern and consequently the investment vehicles it sponsors (including the Fund) are subject to the oversight of the Federal Reserve Board and the Illinois Commissioner of Banks and Real Estate. The Fund sponsor believes that the value of a participant's investment in the Fund determined by valuing the underlying assets at amortized cost is approximately equal to the value of the investment if the underlying assets are valued at fair value.

The average duration of such investment pool as of June 30, 2003, was 38 days and the average weighted maturity was 171 days. Because the loans were terminable at will, their duration did not generally match the duration of the investments made with cash collateral. On June 30, 2003, MCERS had no credit risk exposure to borrowers. The collateral held and the market value of securities on loan for MCERS as of June 30, 2003, were \$283,428,437 and \$274,876,655, respectively. Cash collateral held, amounting to \$233,445,083, is included as an asset and corresponding liability in the accompanying financial statements at year-end.

COMPONENT UNITS

MCPS - The Annotated Code of Maryland requires that MCPS funds on deposit with a financial institution be fully secured by deposit insurance, surety bonds, obligations of the United States or its agencies, obligations of the State of Maryland or any of its agencies, or obligations of a county, other governmental authority or municipal corporation in the State of Maryland. Deposits throughout the year were fully insured or collateralized. The Annotated Code of Maryland authorizes MCPS to invest in obligations for which the United States has pledged its faith and credit for the payment of principal and interest, in obligations issued by a federal agency in accordance with an Act of Congress, in repurchase agreements collateralized at not less than 102 percent of the principal amount by obligations of the United States and its agencies, in money market mutual funds operated in accordance with SEC Rule 2a-7, or in any investment portfolio created under the Maryland Local Government Investment Pool. MCPS was in compliance with the above mentioned investment statutes throughout the fiscal year.

The MCPS Employee Benefit Plan Internal Service Fund is authorized to invest in domestic and foreign equities, obligations of the United States and its agencies, securities issued or guaranteed by a foreign government, marketable corporate bonds, collateralized obligations, commercial paper, bankers' acceptances, money market funds and pooled real estate investments. Fixed income investments are to be made primarily in issues rated "A" or better by Moody's and "A" or better by Standards and Poor's rating agencies.

HOC - Investments of HOC's General Fund, Public Fund, and Opportunity Housing Fund consist of those permitted by the investment policy including obligations of the U.S. government and federal agencies, bankers' acceptances, repurchase agreements, certificates of deposit, money market mutual funds, investments in the MLGIP, commercial paper, and investments in the Montgomery County investment pool. Investments of the HOC Multi-Family Program Fund and the Single Family Mortgage Purchase Program Fund consist of those permitted by the respective bond trust indentures adopted by HOC providing for the issuance of bonds.

2) Credit and Market Risk

Deposit Collateral:

| | Carrying Amount | Bank Balance | Total Collateral ** |
|----------------------------|----------------------|----------------------|------------------------|
| <u>Primary Government:</u> | | | |
| Montgomery County * | \$ 28,880,088 | \$ 43,653,477 | \$ 43,653,477 |
| <u>Component Units:</u> | | | |
| MCPS | 8,420,327 | 16,184,414 | 16,184,414 |
| MCC | 1,289,466 | 3,311,373 | 3,311,373 |
| MCRA | 1,195,899 | 2,496,249 | 2,496,249 |
| HOC | 7,514,687 | 7,514,687 | 7,514,687 |
| BUPI | 184,437 | 206,710 | 174,205 |
| Total Component Units | 18,604,816 | 29,713,433 | 29,680,928 |
| Total Reporting Entity | <u>\$ 47,484,904</u> | <u>\$ 73,366,910</u> | <u>\$ 73,334,405</u> |

* County deposits are the same as external investment pool deposits.

** For those entities with fully collateralized deposits, total actual collateral equals or exceeds the amounts listed.

Deposits include bank accounts and non-negotiable certificates of deposit. The County's bank balances, and therefore the external investment pool's balances, were insured or collateralized with securities held by the County's agent in the County's name. Of the component unit bank balances, \$17,000,839 was insured or collateralized with securities held by the component units' agents in the component units' names, \$12,680,089 was covered by collateral held by the pledging financial institution's trust department or agent in the component units' names, and \$32,505 was uncollateralized.

Investments by Category of Risk:

| <u>Primary Government:</u> | <u>Category 1</u> | <u>Category 2</u> | <u>Category 3</u> | <u>Carrying Amount</u> | <u>Fair Value</u> |
|---|-------------------------|----------------------|----------------------|-------------------------|-------------------------|
| Pension Investments: | | | | | |
| Short-term investments | \$ 117,775,423 | \$ - | \$ - | \$ 117,775,423 | \$ 117,775,423 |
| Asset-backed securities | 23,090,640 | - | - | 23,090,640 | 23,090,640 |
| Collateralized mortgage obligations | 6,984,377 | - | - | 6,984,377 | 6,984,377 |
| Commercial mortgage-backed securities | 3,689,495 | - | - | 3,689,495 | 3,689,495 |
| Municipal/provincial bonds | 3,214,422 | - | - | 3,214,422 | 3,214,422 |
| Convertible corporate bonds | 110,801 | - | - | 110,801 | 110,801 |
| Corporate bonds: | | | | | |
| Not on securities loan | 141,220,623 | - | - | 141,220,623 | 141,220,623 |
| On securities loan for securities collateral | 2,407,337 | - | - | 2,407,337 | 2,407,337 |
| U.S. Government obligations: | | | | | |
| Not on securities loan | 40,211,561 | - | - | 40,211,561 | 40,211,561 |
| On securities loan for securities collateral | 41,195,562 | - | - | 41,195,562 | 41,195,562 |
| Common and preferred stock: | | | | | |
| Not on securities loan | 718,631,863 | - | - | 718,631,863 | 718,631,863 |
| On securities loan for securities collateral | 4,995,405 | - | - | 4,995,405 | 4,995,405 |
| Subtotal Pension Investments | <u>1,103,527,509</u> | <u>-</u> | <u>-</u> | <u>1,103,527,509</u> | <u>1,103,527,509</u> |
| Other Investments: | | | | | |
| U.S. Government securities | <u>10,326,846</u> | <u>-</u> | <u>-</u> | <u>10,326,846</u> | <u>10,326,846</u> |
| | <u>\$ 1,113,854,355</u> | <u>\$ -</u> | <u>\$ -</u> | <u>1,113,854,355</u> | <u>1,113,854,355</u> |
| Pooled investments held in: | | | | | |
| Montgomery County external investment pool * | | | | 559,799,130 | 559,799,130 |
| Pension Investments: | | | | | |
| Mutual and commingled funds | | | | 623,543,343 | 623,543,343 |
| Securities lending short-term collateral investment pool | | | | 233,445,083 | 233,445,083 |
| Investments held by broker dealers under securities loans with cash collateral: | | | | | |
| Common and preferred stock | | | | 110,112,970 | 110,112,970 |
| Corporate bonds | | | | 39,963,934 | 39,963,934 |
| Government obligations | | | | 76,201,453 | 76,201,453 |
| Real estate | | | | 7,410,841 | 7,410,841 |
| Alternative investment | | | | 1,080,755 | 1,080,755 |
| Subtotal Pension Investments | | | | <u>1,091,758,379</u> | <u>1,091,758,379</u> |
| Subtotal Pooled Investments | | | | <u>1,651,557,509</u> | <u>1,651,557,509</u> |
| Total Investments | | | | <u>\$ 2,765,411,864</u> | <u>\$ 2,765,411,864</u> |
| <u>Component Units:</u> | <u>Category 1</u> | <u>Category 2</u> | <u>Category 3</u> | <u>Carrying Amount</u> | <u>Fair Value</u> |
| Repurchase agreements | \$ 5,964,188 | \$ - | \$ 273,836 | \$ 6,238,024 | \$ 6,238,024 |
| U.S. Government securities | 202,013,445 | 12,152,481 | 18,432,089 | 232,598,015 | 232,603,194 |
| Bankers' acceptances | - | 18,440,659 | - | 18,440,659 | 18,447,892 |
| Corporate stocks and bonds | - | 749 | - | 749 | 749 |
| | <u>\$ 207,977,633</u> | <u>\$ 30,593,889</u> | <u>\$ 18,705,925</u> | <u>257,277,447</u> | <u>257,289,859</u> |
| Pooled investments held in: | | | | | |
| Montgomery County external investment pool * | | | | 11,485,768 | 11,485,768 |
| Maryland local government investment pool | | | | 34,369,856 | 34,369,856 |
| Mutual funds | | | | 18,570,819 | 18,570,819 |
| Total Investments | | | | <u>\$ 321,703,890</u> | <u>\$ 321,716,302</u> |

MCC short-term investments with original maturities of less than 90 days in U.S. Government securities and bankers' acceptances are carried at amortized cost.

* The Primary Government and Component Units' participation in the Montgomery County external investment pool is presented as pooled investments and not categorized by credit risk because they are not evidenced by securities that exist in physical or book entry form. The County, as sponsor of the pool, has disclosed the risk categorization of external pool investments below.

| <u>External Investment Pool:</u> | <u>Category 1</u> | <u>Category 2</u> | <u>Category 3</u> | <u>Carrying Amount</u> | <u>Fair Value</u> |
|----------------------------------|-----------------------|-------------------|-------------------|------------------------|-----------------------|
| Repurchase agreements | \$ 179,948,151 | \$ - | \$ - | \$ 179,948,151 | \$ 179,948,151 |
| U.S. Government securities | 68,902,050 | - | - | 68,902,050 | 68,902,050 |
| Commercial paper | 26,983,550 | - | - | 26,983,550 | 26,983,550 |
| Bankers' acceptances | 154,700,728 | - | - | 154,700,728 | 154,700,728 |
| | <u>\$ 430,534,479</u> | <u>\$ -</u> | <u>\$ -</u> | <u>430,534,479</u> | <u>430,534,479</u> |
| Pooled investments held in: | | | | | |
| Money market funds | | | | 140,750,419 | 140,750,419 |
| Total Investments | | | | <u>\$ 571,284,898</u> | <u>\$ 571,284,898</u> |

Investments are categorized to give an indication of the level of risk assumed by the entity at year-end. Category "1" includes investment securities that are insured or registered or held by the entity or its agent in the entity's name. Category "2" includes uninsured and unregistered investment securities held by the counterparty's trust department or agent in the entity's name. Category "3" includes uninsured and unregistered investment securities held by a counterparty, or by its trust department or agent but not in the entity's name. Investment amounts included as Category "3" did not significantly fluctuate during the fiscal year. There were no unusual variations in form or amounts of investments or deposits, including insurance and location of collateral, throughout the fiscal year.

Cash on hand, with fiscal agents, and in safe deposit escrow:

| | <u>Primary Government</u> | <u>Component Units</u> | <u>Total Reporting Entity</u> |
|--------------------------------|-------------------------------|----------------------------|-----------------------------------|
| Cash with fiscal agents | \$ 49,710,378 | \$ 147,120,377 | \$ 196,830,755 |
| Petty cash/safe deposit escrow | 303,257 | 79,807 | 383,064 |
| | <u>\$ 50,013,635</u> | <u>\$ 147,200,184</u> | <u>\$ 197,213,819</u> |

Primary Government cash with fiscal agents of \$31,610,184 is held for approximately one day in U.S. Government obligations that are not in the County's name or in bank accounts that are collateralized with U.S. Government obligations that are not in the County's name (Category 3), while \$18,100,194 is held in money market funds. Component units' cash with fiscal agents of \$147,069,732 is held in money market mutual funds, while \$50,645 is held for approximately one day in U.S. Government obligations that are not in the component unit's name (Category 3).

3) External Investment Pool Condensed Financial Statements

The condensed financial statements of the County's external investment pool at June 30, 2003, are as follows:

Statement of Net Assets June 30, 2003

| | |
|---|-----------------------|
| Assets: | |
| Investment in securities, at fair value | \$ 571,284,898 |
| Cash | 28,880,088 |
| Total assets and net assets | <u>\$ 600,164,986</u> |
| Net assets consist of: | |
| Internal participants' units outstanding (\$1.00 par) | \$ 576,093,216 |
| External participants' units outstanding (\$1.00 par) | 24,071,770 |
| Net assets | <u>\$ 600,164,986</u> |
| Participants net asset value, offering price and redemption price per share (\$600,164,986 / 599,929,709 units) | <u>\$ 1.00</u> |

Statement of Changes in Net Assets Year Ended June 30, 2003

| | |
|---|------------------------|
| Investment Income * | \$ 12,932,437 |
| Distributions to participants: | |
| Distributions paid and payable | (12,932,437) |
| Share transactions at net asset value of \$1.00 per share: | |
| Purchase of units | \$ 8,240,647,814 |
| Redemption of units | <u>(8,381,627,300)</u> |
| Net increase in net assets and shares resulting from share transactions | <u>(140,979,486)</u> |
| Total increase in net assets | (140,979,486) |
| Net assets, July 1, 2002 | <u>741,144,472</u> |
| Net assets, June 30, 2003 | <u>\$ 600,164,986</u> |

* The pool has no expenses.

B) Receivables

1) Accounts Receivable

The total allowance for doubtful accounts at June 30, 2003, amounted to:

| | |
|---|---------------------|
| <u>Enterprise Funds:</u> | |
| Liquor | \$ 446,985 |
| Solid Waste Disposal and Collection Activities | 48,358 |
| Parking Lot Districts | 2,426,919 |
| | <u>\$ 2,922,262</u> |

2) Due from/to Component Units

The balances at June 30, 2003, were:

Due from Component Units / Due to Primary Government:

| Due from Component Units: | MCPS | MCC | MCRA | HOC | BUPI | Total |
|---|----------------------|---------------------|---------------------|----------------------|---------------|----------------------|
| Due to Primary Government: | | | | | | |
| General | \$ 1,970,780 | \$ 2,250,000 | \$ 1,098,690 | \$ 1,378,741 | \$ - | \$ 6,698,211 |
| Bethesda Urban District Special Revenue | | | | | 433 | 433 |
| Housing Initiative Special Revenue | - | - | - | 17,788,667 | - | 17,788,667 |
| Grants Special Revenue | | - | - | 5,234,932 | - | 5,234,932 |
| Capital Projects | 20,087,565 | - | - | 10,594,746 | - | 30,682,311 |
| Solid Waste Disposal Enterprise | 11,696 | 1,006 | - | 1,073 | - | 13,775 |
| Bethesda Parking Lot District Enterprise | - | - | - | 46,497 | - | 46,497 |
| Motor Pool Internal Service | 16,265 | 5,506 | - | 26,826 | - | 48,597 |
| Central Duplicating Internal Service | | - | 272 | 2,666 | - | 2,938 |
| Employee Health Benefits Self-Insurance Internal Service | - | - | 30,393 | 669,370 | - | 699,763 |
| Employees' Retirement System Pension Trust | - | - | 8,200 | 41,594 | - | 49,794 |
| Employees' Retirement Savings Plan Pension Trust | - | - | 3,125 | 33,060 | - | 36,185 |
| HOC Treasury Bonds Permanent | - | - | - | 82,285 | - | 82,285 |
| Total Due to Primary Government per Combined Balance Sheet | <u>\$ 22,086,306</u> | <u>\$ 2,256,512</u> | <u>\$ 1,140,680</u> | <u>\$ 35,900,457</u> | <u>\$ 433</u> | <u>\$ 61,384,388</u> |

Due to Component Units / Due from Primary Government:

| Due to Component Units: | MCPS | MCC | MCRA | HOC | BUPI | Total |
|---|----------------------|---------------------|-------------|---------------------|------------------|----------------------|
| Due from Primary Government: | | | | | | |
| General | \$ 28,476,463 | \$ 45,551 | \$ - | \$ 1,053,428 | \$ - | \$ 29,575,442 |
| Recreation | 17,549 | - | - | - | - | 17,549 |
| Silver Spring Urban District Special Revenue | - | - | - | - | 3,718 | 3,718 |
| Wheaton Urban District Special Revenue | - | - | - | - | 1,573 | 1,573 |
| Mass Transit Special Revenue | - | - | - | - | 28,333 | 28,333 |
| Housing Initiative Special Revenue | - | - | - | 48,536 | - | 48,536 |
| Grants Special Revenue | 1,010,238 | 42,999 | - | 83,619 | - | 1,136,856 |
| Capital Projects | - | 4,799,913 | - | 37,139 | - | 4,837,052 |
| Community Use of Public Facilities Enterprise | 630,106 | - | - | - | - | 630,106 |
| Liability and Property Coverage Self-Insurance Internal Servi | - | - | - | - | - | - |
| Central Duplicating Internal Service | 47,908 | - | - | - | - | 47,908 |
| Total Due from Primary Government per Combined Balance Sheet | <u>\$ 30,182,264</u> | <u>\$ 4,888,463</u> | <u>\$ -</u> | <u>\$ 1,222,722</u> | <u>\$ 33,624</u> | <u>\$ 36,327,073</u> |

In the nonmajor governmental funds, \$17,788,667 due from HOC to the Housing Initiative Special Revenue Fund represents mortgage loans, which are generally repayable based on project cash flows, specified future dates, or sales of the respective properties. Included in this amount is a loan of \$2,213,324, for which payments are based on cash flows. Terms of the note stipulate that the balance of the note will be forgiven at the termination of the ground lease in December 2035. To date the project has not generated cash flows. This loan is offset by deferred revenue. Also included in the amount above is a ground lease, upon which is located affordable housing owned by HOC. The ground lease provides for lease payments from HOC for \$1 per year for 83 years. Fund balance has been reserved for the remaining loans. During FY03, approximately \$264,000 in loans to HOC were forgiven by the County.

3) Due From Other Governments

The total amount due from other governments at June 30, 2003, was comprised of the following:

| | General | Capital Projects | Solid Waste Disposal and Collection | Parking Lot Districts | Nonmajor Governmental | Internal Service | Fiduciary | Total |
|--------------------|----------------------|----------------------|---|-----------------------------|--------------------------|---------------------|------------------|----------------------|
| Federal government | \$ - | \$ 2,340,864 | \$ 1,123 | \$ - | \$ 9,289,456 | \$ - | \$ - | \$ 11,631,443 |
| State of Maryland | 17,147,417 | 22,997,807 | 3,216 | - | 5,383,232 | 21,119 | 12,351 | 45,565,142 |
| Other | 306,813 | 502,502 | 111,483 | 193,364 | 194,573 | 204,494 | 7,326 | 1,520,555 |
| Total | <u>\$ 17,454,230</u> | <u>\$ 25,841,173</u> | <u>\$ 115,822</u> | <u>\$ 193,364</u> | <u>\$ 14,867,261</u> | <u>\$ 225,613</u> | <u>\$ 19,677</u> | <u>\$ 58,717,140</u> |

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C) Capital Assets

PRIMARY GOVERNMENT

Capital asset activity for the year ended June 30, 2003, was as follows:

| | Balance July 1, 2002 * | Increases | Decreases | Balance June 30, 2003 |
|--|---------------------------|-----------------------|-----------------------|--------------------------|
| Governmental Activities | | | | |
| Nondepreciable Capital Assets: | | | | |
| Land | \$ 433,202,160 | \$ 36,990,683 | \$ 1,582,350 | \$ 468,610,493 |
| Construction in progress | 406,654,144 | 136,827,327 | 328,050,573 | 215,430,898 |
| Total Nondepreciable Capital Assets | <u>839,856,304</u> | <u>173,818,010</u> | <u>329,632,923</u> | <u>684,041,391</u> |
| Depreciable Capital Assets: | | | | |
| Buildings | 386,227,005 | 102,119,560 | 1,097,672 | 487,248,893 |
| Improvements other than buildings | 41,346,203 | 2,805,985 | 10,324 | 44,141,864 |
| Furniture, fixtures, equipment and machinery | 26,072,995 | 129,902,258 | 743,964 | 155,231,289 |
| Automobiles and trucks | 142,014,055 | 9,801,704 | 6,241,179 | 145,574,580 |
| Infrastructure | 1,228,191,707 | 96,534,378 | - | 1,324,726,085 |
| Other assets | 8,747,651 | - | 1,689,469 | 7,058,182 |
| Total Capital Assets being Depreciated | <u>1,832,599,616</u> | <u>341,163,885</u> | <u>9,782,608</u> | <u>2,163,980,893</u> |
| Less Accumulated Depreciation for: | | | | |
| Buildings | 163,228,251 | 12,456,918 | 930,742 | 174,754,427 |
| Improvements other than buildings | 19,501,459 | 1,317,908 | 7,207 | 20,812,160 |
| Furniture, fixtures, equipment and machinery | 18,350,642 | 22,317,144 | 677,746 | 39,990,040 |
| Automobiles and trucks | 67,268,483 | 9,658,831 | 5,997,254 | 70,930,060 |
| Infrastructure | 261,575,235 | 27,230,468 | - | 288,805,703 |
| Other assets | 2,046,949 | 874,765 | 768,492 | 2,153,222 |
| Total Accumulated Depreciation | <u>531,971,019</u> | <u>73,856,034</u> | <u>8,381,441</u> | <u>597,445,612</u> |
| Total Depreciable Assets, net | <u>1,300,628,597</u> | <u>267,307,851</u> | <u>1,401,167</u> | <u>1,566,535,281</u> |
| Governmental Activities Capital Assets, net | <u>\$ 2,140,484,901</u> | <u>\$ 441,125,861</u> | <u>\$ 331,034,090</u> | <u>\$ 2,250,576,672</u> |
| Business-Type Activities | | | | |
| Nondepreciable Capital Assets: | | | | |
| Land | \$ 52,833,368 | \$ - | \$ - | \$ 52,833,368 |
| Construction in progress | 8,232,399 | 13,662,087 | 7,661,212 | 14,233,274 |
| Total Nondepreciable Capital Assets | <u>61,065,767</u> | <u>13,662,087</u> | <u>7,661,212</u> | <u>67,066,642</u> |
| Depreciable Capital Assets: | | | | |
| Buildings | 136,660,448 | 12,500,905 | 5,845,310 | 143,316,043 |
| Improvements other than buildings | 103,708,315 | 2,907,056 | 1,415,088 | 105,200,283 |
| Furniture, fixtures, equipment and machinery | 16,997,478 | 3,222,654 | 756,540 | 19,463,592 |
| Automobiles and trucks | 3,291,799 | 350,800 | 38,550 | 3,604,049 |
| Total Capital Assets being Depreciated | <u>260,658,040</u> | <u>18,981,415</u> | <u>8,055,488</u> | <u>271,583,967</u> |
| Less Accumulated Depreciation for: | | | | |
| Buildings | 57,308,987 | 4,785,867 | 1,914,328 | 60,180,526 |
| Improvements other than buildings | 85,460,849 | 2,987,063 | 1,266,277 | 87,181,635 |
| Furniture, fixtures, equipment and machinery | 11,557,076 | 1,211,583 | 756,540 | 12,012,119 |
| Automobiles and trucks | 2,199,755 | 196,097 | 38,550 | 2,357,302 |
| Total Accumulated Depreciation | <u>156,526,667</u> | <u>9,180,610</u> | <u>3,975,695</u> | <u>161,731,582</u> |
| Total Depreciable Assets, net | <u>104,131,373</u> | <u>9,800,805</u> | <u>4,079,793</u> | <u>109,852,385</u> |
| Business-Type Activities Capital Assets, net | <u>\$ 165,197,140</u> | <u>\$ 23,462,892</u> | <u>\$ 11,741,005</u> | <u>\$ 176,919,027</u> |

* Certain amounts have been reclassified to conform with the current year presentation.

Depreciation expense was charged to the functions of the primary government as follows:

Governmental activities:

| | |
|--|----------------------|
| General government | \$ 7,560,249 |
| Public safety | 17,385,298 |
| Public works and transportation | 42,622,121 |
| Health and human services | 1,085,184 |
| Culture and recreation | 3,664,213 |
| Community development and housing | 1,349,889 |
| Environment | 189,080 |
| Total depreciation expense-governmental activities | <u>\$ 73,856,034</u> |

Business-type activities:

| | |
|---|---------------------|
| Liquor | \$ 719,893 |
| Solid waste disposal and collection | 2,749,930 |
| Parking lot districts | 5,549,220 |
| Permitting services | 124,430 |
| Community use of public facilities | 37,137 |
| Total depreciation expense-business-type activities | <u>\$ 9,180,610</u> |

Construction commitments as of June 30, 2003, are as follows:

| | |
|-----------------------------------|-----------------------|
| General Government | \$ 13,439,623 |
| Public Safety | 15,513,538 |
| Public Works and Transportation | 33,863,403 |
| Culture and Recreation | 51,013,500 |
| Community Development and Housing | 13,374,056 |
| Environment | 2,268,103 |
| Total | <u>\$ 129,472,223</u> |

COMPONENT UNITS

Capital assets of MCPS, amounting to \$1,253,232,882 at June 30, 2003, are significant in relation to the total component unit capital assets.

| | Balance July 1, 2002 | Increases | Decreases | Balance June 30, 2003 |
|--|-------------------------|----------------------|----------------------|--------------------------|
| Governmental Activities | | | | |
| Nondepreciable capital assets: | | | | |
| Land | \$ 65,220,412 | \$ 1,063,154 | \$ 76,147 | \$ 66,207,419 |
| Construction in progress | 68,344,439 | 67,666,059 | 34,561,128 | 101,449,370 |
| Total nondepreciable capital assets | <u>133,564,851</u> | <u>68,729,213</u> | <u>34,637,275</u> | <u>167,656,789</u> |
| Depreciable capital assets: | | | | |
| Buildings and improvements | 1,375,238,475 | 42,882,593 | 7,185,341 | 1,410,935,727 |
| Site improvements | 102,879,982 | 2,813,005 | - | 105,692,987 |
| Vehicles and equipment | 109,543,237 | 5,981,265 | 1,226,251 | 114,298,251 |
| Total depreciable capital assets | <u>1,587,661,694</u> | <u>51,676,863</u> | <u>8,411,592</u> | <u>1,630,926,965</u> |
| Less accumulated depreciation for: | | | | |
| Buildings and improvements | 443,825,137 | 32,668,975 | 5,205,265 | 471,288,847 |
| Site improvements | 17,247,792 | 2,391,220 | - | 19,639,012 |
| Vehicles and equipment | 51,959,526 | 9,223,623 | 1,200,086 | 59,983,063 |
| Total accumulated depreciation | <u>513,032,455</u> | <u>44,283,818</u> | <u>6,405,351</u> | <u>550,910,922</u> |
| Total depreciable capital assets, net | <u>1,074,629,239</u> | <u>7,393,045</u> | <u>2,006,241</u> | <u>1,080,016,043</u> |
| Government activities capital assets, net | <u>\$1,208,194,090</u> | <u>\$ 76,122,258</u> | <u>\$ 36,643,516</u> | <u>1,247,672,832</u> |
| Business-Type Activities | | | | |
| Depreciable capital assets: | | | | |
| Buildings | \$ 17,831 | \$ - | \$ - | 17,831 |
| Vehicles and equipment | 17,115,260 | 436,303 | 1,380,000 | 16,171,563 |
| Total depreciable capital assets | <u>17,133,091</u> | <u>436,303</u> | <u>1,380,000</u> | <u>16,189,394</u> |
| Less accumulated depreciation for: | | | | |
| Buildings | 4,458 | 1,783 | - | 6,241 |
| Vehicles and equipment | 10,758,826 | 1,058,033 | 1,193,756 | 10,623,103 |
| Total accumulated depreciation | <u>10,763,284</u> | <u>1,059,816</u> | <u>1,193,756</u> | <u>10,629,344</u> |
| Business-type activities capital assets, net | <u>\$ 6,369,807</u> | <u>\$ (623,513)</u> | <u>\$ 186,244</u> | <u>5,560,050</u> |
| Total MCPS government-wide capital assets | | | | <u>\$ 1,253,232,882</u> |

Depreciation expense of MCPS was charged to functions/programs as follows:

| | |
|---|----------------------|
| Governmental activities: | |
| Regular instruction | \$ 35,985,183 |
| Special education | 170,982 |
| School administration | 27,835 |
| Student transportation | 6,291,135 |
| Operation of plant | 193,458 |
| Maintenance of plant | 427,355 |
| Administration | 1,187,870 |
| Total depreciation expense -governmental activities | <u>\$ 44,283,818</u> |
| Business-type activities: | |
| Food services | \$ 1,054,818 |
| Real estate management | 4,998 |
| Total depreciation expense - business type activities | <u>\$ 1,059,816</u> |

D) Interfund Receivables, Payables, and Transfers

The composition of interfund receivables and payables as of June 30, 2003, is as follows:

| | Due From Fund | | | | | Total |
|------------------------|-----------------------|----------------------|------------------------|---------------------|---------------------|-----------------------|
| | General | Solid Waste Disposal | Non-major Governmental | Internal Service | Fiduciary | |
| <u>Due To Fund</u> | | | | | | |
| General | \$ - | \$ 630 | \$ 450 | \$ 1,894,867 | \$ 2,856,104 | \$ 4,752,051 |
| Debt Service | 30,344,472 | - | 1,265,712 | - | - | 31,610,184 |
| Capital Projects | 74,034,844 | - | 349,335 | 47,292 | 42,277 | 74,473,748 |
| Liquor | - | 3,516 | - | 78,793 | 66,416 | 148,725 |
| Solid Waste Activities | - | - | - | 27,715 | 33,791 | 61,506 |
| Parking Lot Districts | - | 1,019 | - | 10,284 | 9,848 | 21,151 |
| Nonmajor Governmental | - | - | - | 774,184 | 1,058,529 | 1,832,713 |
| Nonmajor Enterprise | - | - | - | 80,165 | 105,109 | 185,274 |
| Internal Service | - | - | - | 74,662 | 65,323 | 139,985 |
| Fiduciary | - | - | - | 1,810 | 288 | 2,098 |
| Total | <u>\$ 104,379,316</u> | <u>\$ 5,165</u> | <u>\$ 1,615,497</u> | <u>\$ 2,989,772</u> | <u>\$ 4,237,685</u> | <u>\$ 113,227,435</u> |

Included in the amounts presented above are the following short-term loans from the General Fund that were or will be repaid during FY04:

- \$74.0 million to the Capital Projects Fund to cover construction payments, due to the delayed issuance of debt; and
- \$30.3 million to the Debt Service Fund relating to a FY04 debt service payment that must be remitted to the County's fiscal agent one working day prior to the debt service due date.

Remaining balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

Interfund transfers for the year ended June 30, 2003, consisted of the following:

| | Transfers In Fund | | | | | | Total |
|---------------------------|----------------------|-----------------------|----------------------|-----------------------|-----------------------|-------------------|-----------------------|
| | General | Debt Service | Capital Projects | Parking Lot Districts | Nonmajor Governmental | Internal Service | |
| Transfers Out Fund | | | | | | | |
| General | \$ - | \$ 168,474,195 | \$ 15,012,594 | \$ 11,776,945 | \$ 22,381,520 | \$ 79,734 | \$ 217,724,988 |
| Debt Service | - | - | 1,342,360 | - | - | - | 1,342,360 |
| Capital Projects | - | 88,772 | - | - | - | - | 88,772 |
| Liquor | 18,985,890 | - | 92,147 | - | - | - | 19,078,037 |
| Solid Waste Activities | 1,524,960 | - | - | - | - | - | 1,524,960 |
| Parking Lot Districts | 521,220 | - | 90,376 | - | 4,315,268 | - | 4,926,864 |
| Nonmajor Governmental | 11,177,520 | 15,276,245 | 9,280,800 | - | 73,341 | 567,139 | 36,375,045 |
| Nonmajor Enterprise | 8,845,010 | - | - | - | - | - | 8,845,010 |
| Total | \$ 41,054,600 | \$ 183,839,212 | \$ 25,818,277 | \$ 11,776,945 | \$ 26,770,129 | \$ 646,873 | \$ 289,906,036 |

Primary activities include:

- Transfers from the General and various non-major governmental funds to the Debt Service Fund to provide funding for debt service principal and interest payments;
- Transfers of current receipt and pay-go funding from the General Fund to the Capital Projects Fund;
- Transfer of Liquor Enterprise Fund profits to the General Fund; and
- Transfer of certain revenues in excess of statutory formulas from the General Fund to the Revenue Stabilization Special Revenue Fund.

Included in the amounts above is \$11,937,810 contributed by the General Fund to the Housing Initiative Special Revenue Fund to provide supplemental funding to the program. Also included above is \$11,776,945 transferred by the General Fund to the Silver Spring Parking Lot District Enterprise Fund in the form of two garages currently under construction (see Note III-E3).

E) Leases

1) Operating Leases

The County leases building and office facilities and other equipment under non-cancelable operating leases. Lease agreements typically provide for automatic termination on July 1 of any year in which funds to meet subsequent rental payments are not appropriated. Total costs for operating leases were approximately \$9,419,000 for FY03. Future minimum lease payments under significant non-cancelable operating leases are as follows:

| Fiscal Year Ending June 30 | Amount |
|-------------------------------|----------------------|
| 2004 | \$ 10,631,000 |
| 2005 | 8,759,000 |
| 2006 | 7,088,000 |
| 2007 | 6,180,000 |
| 2008 | 6,099,000 |
| 2009 - 2013 | 21,671,000 |
| 2014 - 2016 | 3,439,000 |
| Total | \$ 63,867,000 |

2) Capital Lease Receivable

Pursuant to the issue of the 2002 Lease Revenue Bonds (See Note III-F5), the County is obligated to lease the Shady Grove and Grosvenor Metrorail Garage Projects to WMATA at amounts calculated to be sufficient in both time and amount to pay, when due, the principal of and interest on the bonds. The lease has a term of 22 years ending on June 1, 2024.

Construction of the Shady Grove garage is complete; however, WMATA has not yet formally taken possession of the asset.

Construction of the Grosvenor garage is not yet complete. The receivable for the Grosvenor garage has been recorded in the amount of \$16,654,271, which is the extent of the bond funded costs incurred at year-end. Therefore, the receivable reflected in the accompanying financial statements is less than the net investment in direct financing leases disclosed below.

The composition of the capital lease receivable when construction of the garages is complete is as follows:

| | Shady Grove | Grosvenor | Total |
|---|----------------------|----------------------|----------------------|
| Minimum lease payments receivable | \$ 31,739,514 | \$28,954,482 | \$ 60,693,996 |
| Unearned lease income | (12,884,744) | (9,929,252) | (22,813,996) |
| Net investment in direct financing leases | <u>\$ 18,854,770</u> | <u>\$ 19,025,230</u> | <u>\$ 37,880,000</u> |

At June 30, 2003, the minimum future lease payments due under the direct financing capital lease are as follows:

| Fiscal Year Ending June 30 | |
|-------------------------------|----------------------|
| 2004 | \$ 1,682,005 |
| 2005 | 2,882,005 |
| 2006 | 2,948,005 |
| 2007 | 2,948,961 |
| 2008 | 2,946,711 |
| Later years | 47,286,309 |
| Total minimum lease payments | <u>\$ 60,693,996</u> |

3) Capital Lease Obligations

The County has entered into various lease agreements as lessee with the Montgomery County Revenue Authority (MCRA) for financing the construction or acquisition of certain County facilities. These lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of their future minimum lease payments as of the inception dates of the leases.

The assets acquired through capital leases are as follows:

| | |
|--|----------------------|
| Land | \$ 13,449,033 |
| Land improvements | 182,516 |
| Buildings | 26,547,179 |
| Furniture, fixtures, equipment and machinery | 159,291 |
| Subtotal | 40,338,019 |
| Less accumulated depreciation | (12,141,900) |
| Total asset value under capital leases | <u>\$ 28,196,119</u> |

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2003, are as follows:

| <u>Fiscal Year</u> <u>Ending June 30</u> | |
|---|----------------------|
| 2004 | \$ 2,514,900 |
| 2005 | 2,834,659 |
| 2006 | 2,799,872 |
| 2007 | 2,769,420 |
| 2008 | 2,748,386 |
| 2009-2013 | 9,926,569 |
| 2014-2018 | 2,561,289 |
| Total minimum lease payments | <u>\$ 26,155,095</u> |
| Less: amount representing interest | (6,730,095) |
| Present value of minimum lease payments | <u>\$ 19,425,000</u> |

The County has also entered into a lease agreement as lessee with the MCRA to lease from MCRA the Montgomery County Conference Center. The construction of the Conference Center will be funded through the issuance of lease revenue bonds by MCRA. The Maryland Stadium Authority will also participate in financing the construction through the issuance of long-term debt. The ownership of the Conference Center will transfer to the County at the end of the MCRA lease term. No asset or liability for this transaction has been recorded since, as of year end, no bond funded construction costs have been incurred.

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2003, are as follows:

| Fiscal Year Ending June 30 | |
|---|-----------------------------|
| 2004 | \$ 1,021,057 |
| 2005 | 995,253 |
| 2006 | 994,853 |
| 2007 | 993,853 |
| 2008 | 997,253 |
| 2009-2013 | 4,975,350 |
| 2014-2018 | 4,976,010 |
| 2019-2023 | 4,979,198 |
| Total minimum lease payments | <u>\$ 19,932,827</u> |
| Less: amount representing interest | <u>(8,097,827)</u> |
| Present value of minimum lease payments | <u><u>\$ 11,835,000</u></u> |

The County has entered into a lease agreement as lessee with the Maryland Economic Development Corporation (MEDCO) to lease from MEDCO the Town Square Garage 61 and Wayne Avenue Garages, located in the Silver Spring Parking Lot District (SSPLD). The construction of these garages is being funded through the issuance of lease revenue bonds by MEDCO. The ownership of the garages will transfer to the County at the end of the lease term. Although this capital lease is a general governmental obligation, the asset is reflected in the SSPLD, as required by law. This transaction has been reflected as a transfer from the General Fund (where it is offset by other financing sources – financing under capital lease) to the SSPLD, since any amounts that ultimately may be repaid by the SSPLD are not expected to be repaid within a reasonable time.

Bond funded costs incurred as of year-end totaling \$11,776,945 are recorded as construction-in-progress in the SSPLD. Since construction is not yet complete, the asset and liability presented in the Statement of Net Assets do not equal the total present value of minimum lease payments presented below.

| Fiscal Year Ending June 30 | Town Square | Wayne Ave | Total |
|---|-----------------------------|-----------------------------|-----------------------------|
| 2004 | \$ 2,419,701 | \$ 2,956,700 | \$ 5,376,401 |
| 2005 | 2,488,101 | 3,739,600 | 6,227,701 |
| 2006 | 2,485,201 | 3,373,788 | 5,858,989 |
| 2007 | 2,485,804 | 3,376,563 | 5,862,367 |
| 2008 | 2,482,246 | 3,108,763 | 5,591,009 |
| 2009-2013 | 12,356,404 | 15,460,819 | 27,817,223 |
| 2014-2016 | 9,788,877 | 12,410,755 | 22,199,632 |
| Total minimum lease payments | <u>\$ 34,506,334</u> | <u>\$ 44,426,988</u> | <u>\$ 78,933,322</u> |
| Less: amount representing interest | <u>(7,966,334)</u> | <u>(11,866,988)</u> | <u>(19,833,322)</u> |
| Present value of minimum lease payments | <u><u>\$ 26,540,000</u></u> | <u><u>\$ 32,560,000</u></u> | <u><u>\$ 59,100,000</u></u> |

F) Long-Term Debt

PRIMARY GOVERNMENT

1) General Obligation Bonds Payable

General obligation bonds are authorized, issued, and outstanding for the following purposes: (1) General County Facilities, (2) Roads and Storm Drainage, (3) Parks, (4) Public Schools, (5) Community College, (6) Consolidated Fire Tax District, (7) Mass Transit Facilities, (8) Public Housing Facilities, and (9) Parking Facilities. All bonds are valid and legally binding general obligations of the County, and constitute an irrevocable pledge of its full faith and credit and unlimited taxing power. Such bonds are payable from ad valorem taxes, unlimited as to rate or amount, on all real, tangible personal, and certain intangible property that is subject to taxation at full rates for local purposes in the County.

General obligation bonds that are reported in the enterprise funds (Bethesda Parking, Silver Spring Parking, and Solid Waste Disposal) are payable first from revenues of those funds.

Proceeds from general obligation bonds for public schools and the community college are appropriated by the County Council to MCPS and MCC (component units), respectively, and remitted to such component units by the County. For GAAP purposes, proceeds from debt issuance for these purposes and any related expenditures incurred and reimbursed to the component units are reflected as other financing sources and expenditures, respectively, in the accompanying fund financial statements. These amounts are not budgeted by the County since this activity is appropriated for budget purposes to the component units. Any general obligation bond proceeds, not yet expended by the component units at year end, is reflected as Reserved Fund Balance of the Capital Projects Fund.

On December 12, 2002, Montgomery County Government issued \$93,595,000 in general obligation refunding bonds dated November 15, 2002. These bonds were issued with a true interest cost of 3.26%, to advance refund \$95,750,000 of general obligation (GO) bonds that were previously issued. A detailed listing of these refunded bonds is as follows:

| | Dated Date | Original Maturity | True Interest Cost | Originally Issued | Years Refunded | Amount Refunded |
|----------|---------------|----------------------|-----------------------|-----------------------|-------------------|----------------------|
| GO Bonds | 10/1/93 | 1994-13 | 4.6899 | 100,000,000 | 2005-13 | 45,000,000 |
| GO Bonds | 10/1/94 | 1995-14 | 5.7958 | 100,000,000 | 2006-08 | 15,000,000 |
| GO Bonds | 3/15/96 | 1997-16 | 5.2946 | 120,000,000 | 2008 | 6,000,000 |
| GO Bonds | 4/15/97 | 1998-17 | 5.3226 | 115,000,000 | 2010 | 5,750,000 |
| GO Bonds | 4/1/98 | 1999-18 | 4.7607 | 115,000,000 | 2011-12 | 11,500,000 |
| GO Bonds | 4/1/99 | 2000-19 | 4.4760 | 120,000,000 | 2013 | 6,000,000 |
| GO Bonds | 1/1/00 | 2001-20 | 5.4850 | 130,000,000 | 2013 | 6,500,000 |
| Total | | | | <u>\$ 800,000,000</u> | | <u>\$ 95,750,000</u> |

The net proceeds of the general obligation refunding bonds were used to purchase direct obligations, or obligations on which the timely payment of principal and interest is unconditionally guaranteed by the United States of America. These government obligations have been deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the bonds that were refunded. As a result, the refunded bonds are considered to be defeased and the liability for those bonds has been removed from the governmental activities column of the statement of net assets.

The reacquisition price exceeded the net carrying amount of the old debt by \$7,557,499. This amount is being netted against the new debt and amortized over the remaining life of the new debt, which is shorter than the refunded debt.

| Fiscal Year | Refunded Debt Service Requirements | Refunding Debt Service Requirements | Debt Service Savings |
|----------------|--|---|-------------------------|
| 2003 | \$ 2,418,969 | \$ 1,728,774 | \$ 690,195 |
| 2004 | 4,837,937 | 4,477,400 | 360,537 |
| 2005 | 4,837,938 | 4,477,400 | 360,538 |
| 2006 | 9,725,438 | 6,787,225 | 2,938,213 |
| 2007 | 14,354,812 | 14,353,381 | 1,431 |
| 2008 | 19,832,938 | 19,832,088 | 850 |
| 2009 | 12,992,312 | 12,991,587 | 725 |
| 2010 | 13,351,063 | 13,348,963 | 2,100 |
| 2011 | 12,797,625 | 12,794,838 | 2,787 |
| 2012 | 12,272,312 | 12,271,831 | 481 |
| 2013 | 18,497,000 | 18,496,475 | 525 |
| 2014 | 5,122,500 | 5,119,875 | 2,625 |
| Total | <u>\$ 131,040,844</u> | <u>\$ 126,679,837</u> | <u>\$ 4,361,007</u> |

The present value of the above debt service savings (or economic gain) is \$3,888,398.

In January 1998, \$64,500,000 in general obligation bonds, which mature in FY07 and beyond, were defeased. In November 2001, \$143,000,000 in general obligation bonds, which mature in FY09 and beyond, were defeased. These defeasances were affected by placing the proceeds of general obligation refunding bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in these financial statements. As of June 30, 2003, \$30,000,000, and \$122,250,000, respectively, in general obligation bonds referred to above is considered to be defeased.

General obligation bond issues outstanding as of June 30, 2003, are as follows:

| Dated Date | Maturity | Interest Rate | Originally Issued | Balance June 30, 2003 | Unamortized Premium ** | Unamortized Deferred Difference | Carrying Value June 30, 2003 |
|---------------|----------|---------------|-------------------------|--------------------------|---------------------------|---------------------------------------|---------------------------------|
| 06/01/84 | 1985-04 | 9.0 - 9.75 | \$ 55,000,000 | \$ 2,750,000 | \$ - | \$ - | \$ 2,750,000 |
| 05/01/85 | 1986-05 | 7.6 - 8.6 | 65,000,000 | 6,500,000 | - | - | 6,500,000 |
| 04/01/86 | 1987-06 | 5.8 - 6.3 | 50,000,000 | 7,500,000 | - | - | 7,500,000 |
| 07/01/92 * | 1993-10 | 2.75 - 5.8 | 273,038,054 | 149,793,054 | - | - | 149,793,054 |
| 10/01/92 | 1993-06 | 5.0 - 5.75 | 115,000,000 | 5,750,000 | - | - | 5,750,000 |
| 08/15/93 * | 1994-11 | 2.5 - 5.0 | 60,005,000 | 55,605,000 | - | - | 55,605,000 |
| 10/01/93 | 1994-13 | 4.4 - 4.9 | 100,000,000 | 10,000,000 | - | - | 10,000,000 |
| 10/01/94 | 1995-08 | 5.2 - 6.125 | 100,000,000 | 15,000,000 | - | - | 15,000,000 |
| 03/15/96 | 1997-16 | 5.1 - 5.5 | 120,000,000 | 24,000,000 | - | - | 24,000,000 |
| 04/15/97 | 1998-17 | 5.0 - 5.375 | 115,000,000 | 46,000,000 | - | - | 46,000,000 |
| 01/01/98 * | 2003-15 | 3.9 - 5.25 | 69,510,000 | 69,175,000 | - | - | 69,175,000 |
| 04/01/98 | 1999-18 | 4.875 | 115,000,000 | 74,750,000 | - | - | 74,750,000 |
| 04/01/99 | 2000-19 | 4.0 - 5.0 | 120,000,000 | 90,000,000 | - | - | 90,000,000 |
| 01/01/00 | 2001-20 | 5.0 - 6.0 | 130,000,000 | 58,500,000 | - | - | 58,500,000 |
| 02/01/01 | 2002-21 | 4.0 - 5.0 | 140,000,000 | 126,000,000 | - | - | 126,000,000 |
| 11/15/01 * | 2003-19 | 3.6 - 5.25 | 146,375,000 | 146,375,000 | 7,721,948 | (9,892,125) | 144,204,823 |
| 02/01/02 | 2003-22 | 3.0 - 5.0 | 160,000,000 | 152,000,000 | 2,635,473 | - | 154,635,473 |
| 11/15/02 * | 2005-13 | 2.75 - 5.25 | 93,595,000 | 93,595,000 | 9,078,597 | (6,863,217) | 95,810,380 |
| 05/01/03 | 2004-23 | 1.5 - 4.0 | 155,000,000 | 155,000,000 | 1,386,137 | - | 156,386,137 |
| Total | | | <u>\$ 2,182,523,054</u> | <u>\$ 1,288,293,054</u> | <u>\$ 20,822,155</u> | <u>\$ (16,755,342)</u> | <u>\$ 1,292,359,867</u> |

* Issue represents refunding bonds.

** GAAP require amortization of premiums and issue costs to occur prospectively, beginning with the year of implementation.

As a result, unamortized premiums and issue costs for issues prior to FY02, are not reflected above.

Changes in general obligation bonds during FY03 are as follows:

| | Balance July 1, 2002 | Bonds Issued | Bonds Retired | Bonds Refunded | Balance June 30, 2003 |
|---|-------------------------|-----------------------|-----------------------|----------------------|--------------------------|
| Governmental Activities: | | | | | |
| General County | \$ 178,997,850 | \$ 22,427,134 | \$ 14,711,936 | \$ 8,797,500 | \$ 177,915,548 |
| Roads and Storm Drainage | 324,965,330 | 61,489,412 | 30,436,989 | 21,985,000 | 334,032,753 |
| Parks | 37,158,080 | 4,656,883 | 3,674,351 | 1,537,500 | 36,603,112 |
| Public Schools | 627,786,710 | 144,687,994 | 50,984,179 | 59,535,000 | 661,955,525 |
| Community College | 34,454,221 | 10,699,486 | 2,568,229 | 2,250,000 | 40,335,478 |
| Consolidated Fire Tax District | 16,858,575 | 3,450,844 | 1,330,982 | 950,000 | 18,028,437 |
| Mass Transit | 20,100,682 | 1,183,247 | 2,707,248 | 695,000 | 17,881,681 |
| Public Housing | 1,599,373 | - | 251,235 | - | 1,348,138 |
| | <u>1,241,920,821</u> | <u>248,595,000</u> | <u>106,665,149</u> | <u>95,750,000</u> | <u>1,288,100,672</u> |
| Business-Type Activities/Enterprise Funds: | | | | | |
| Solid Waste Activities: | | | | | |
| General County | 282,233 | - | 89,851 | - | 192,382 |
| Parking Lot Districts: | | | | | |
| Bethesda Parking Lot District | 250,000 | - | 250,000 | - | - |
| Silver Spring Parking Lot District | 100,000 | - | 100,000 | - | - |
| | <u>632,233</u> | <u>-</u> | <u>439,851</u> | <u>-</u> | <u>192,382</u> |
| Total | <u>\$ 1,242,553,054</u> | <u>\$ 248,595,000</u> | <u>\$ 107,105,000</u> | <u>\$ 95,750,000</u> | <u>\$ 1,288,293,054</u> |

For the general obligation bonds carried in the enterprise funds, \$84,251 from the Solid Waste Disposal and Collection Activities Fund is classified as a current liability.

General obligation bond debt service requirements to maturity are as follows:

| Fiscal Year Ending June 30 | General Obligation Bond Requirements | | |
|----------------------------------|--------------------------------------|----------------------|------------------------|
| | Principal | Interest | Total |
| 2004 | \$ 110,715,000 | \$ 60,033,845 | \$ 170,748,845 |
| 2005 | 109,585,000 | 54,523,537 | 164,108,537 |
| 2006 | 103,405,000 | 49,125,477 | 152,530,477 |
| 2007 | 103,395,000 | 44,174,615 | 147,569,615 |
| 2008 | 103,180,000 | 39,222,323 | 142,402,323 |
| 2009-2013 | 383,453,054 | 160,565,132 | 544,018,186 |
| 2014-2018 | 263,370,000 | 59,987,491 | 323,357,491 |
| 2019-2023 | 111,190,000 | 11,810,701 | 123,000,701 |
| Total | <u>\$1,288,293,054</u> | <u>\$479,443,121</u> | <u>\$1,767,736,175</u> |

Article 25A, Section 5(P), of the Annotated Code of Maryland, authorizes borrowing of funds and issuance of bonds to a maximum of 6% of the assessable basis of real property and 15% of the assessable basis of personal property and operating real property. The legal debt margin as of June 30, 2003, is \$4,163,984,170.

General obligation bonds authorized and unissued as of June 30, 2003, are as follows:

| Purpose | Authority | | Amount | Amount Unissued |
|--|-----------|------|-----------------------|-----------------------|
| | Chapter | Act | | |
| General County, Parks, and Consolidated Fire Tax District | 19 | 1998 | \$ 113,400,000 | \$ 8,390,000 |
| | 18 | 1999 | 33,500,000 | 33,500,000 |
| | 22 | 2000 | 78,300,000 | 78,300,000 |
| | 17 | 2001 | 35,200,000 | 35,200,000 |
| | 21 | 2002 | 4,700,000 | 4,700,000 |
| | | | <u>265,100,000</u> | <u>160,090,000</u> |
| Roads and Storm Drainage | 19 | 2000 | 77,600,000 | 73,010,000 |
| | 17 | 2001 | 10,630,000 | 10,630,000 |
| | 21 | 2002 | 34,800,000 | 34,800,000 |
| | | | <u>123,030,000</u> | <u>118,440,000</u> |
| Public Schools and Community College | 17 | 2001 | 159,755,000 | 70,768,000 |
| | 21 | 2002 | 104,800,000 | 104,800,000 |
| | | | <u>264,555,000</u> | <u>175,568,000</u> |
| Mass Transit | 22 | 2000 | 1,400,000 | 1,005,000 |
| | 17 | 2001 | 6,700,000 | 6,700,000 |
| | 21 | 2002 | 1,600,000 | 1,600,000 |
| | | | <u>9,700,000</u> | <u>9,305,000</u> |
| Public Housing | 17 | 1981 | 2,650,000 | 2,590,000 |
| | 13 | 1982 | 995,000 | 995,000 |
| | 8 | 1983 | 230,000 | 230,000 |
| | 20 | 1985 | 900,000 | 900,000 |
| | 13 | 1986 | 855,000 | 855,000 |
| | | | <u>5,630,000</u> | <u>5,570,000</u> |
| Parking Districts: Silver Spring | 9 | 1983 | 2,945,000 | 2,045,000 |
| | 6 | 1984 | 1,220,000 | 1,220,000 |
| | | | <u>4,165,000</u> | <u>3,265,000</u> |
| Bethesda | 19 | 1981 | 7,325,000 | 3,040,000 |
| | 14 | 1982 | 775,000 | 775,000 |
| | 10 | 1983 | 1,050,000 | 1,050,000 |
| | | | <u>9,150,000</u> | <u>4,865,000</u> |
| Total Parking Districts | | | <u>13,315,000</u> | <u>8,130,000</u> |
| Total General Obligation Bonds | | | <u>\$ 681,330,000</u> | <u>\$ 477,103,000</u> |

In addition to this bond authority, the County has authority under the provisions of Section 56-13 of the 1994 Montgomery County Code, as amended, to issue County bonds within statutory debt limits to finance approved urban renewal projects.

2) Revenue Bonds Payable

Revenue bonds are authorized, issued, and outstanding to provide funds for the Bethesda Parking Lot District, the Silver Spring Parking Lot District, and the Solid Waste Disposal activities. These revenue bonds are secured by pledges of the respective funds.

On April 3, 2003, Montgomery County Government issued \$31,075,000 of Solid Waste Disposal System Refunding Revenue Bonds 2003 Series A. The Bonds were issued with a true interest cost of 3.5982%, for a current refunding of \$31,825,000 of Solid Waste System Revenue Bonds 1993 Series A.

The reacquisition price exceeded the net carrying value of the old debt by \$1,713,610. This amount is being netted against the new debt and amortized over the new debt's life.

| Fiscal Year | Refunded Debt Service Requirements | Refunding Debt Service Requirements | Debt Service Savings |
|-------------|------------------------------------|-------------------------------------|----------------------|
| 2003 | \$ 801,909 | \$ (18,917) | \$ 820,826 |
| 2004 | 4,048,819 | 3,904,370 | 144,449 |
| 2005 | 4,049,344 | 3,905,687 | 143,657 |
| 2006 | 4,049,864 | 3,905,637 | 144,227 |
| 2007 | 4,049,539 | 3,903,037 | 146,502 |
| 2008 | 4,050,339 | 3,907,787 | 142,552 |
| 2009 | 4,046,152 | 3,900,087 | 146,065 |
| 2010 | 4,046,682 | 3,902,337 | 144,345 |
| 2011 | 4,051,051 | 3,904,086 | 146,965 |
| 2012 | 4,048,376 | 3,902,086 | 146,290 |
| 2013 | (247,554) | (394,913) | 147,359 |
| Total | <u>\$ 36,994,521</u> | <u>\$ 34,721,284</u> | <u>\$ 2,273,237</u> |

The present value of the above debt service savings (or economic gain) is \$2,031,770.

Revenue bond issues outstanding as of June 30, 2003, are as follows:

| | Dated Date | Maturity | Interest Rate | Originally Issued | Balance June 30, 2003 | Unamortized Premium/ (Discount) | Unamortized Deferred Difference | Carrying Value June 30, 2003 |
|------------------------------------|------------|----------|---------------|----------------------|-----------------------|---------------------------------|---------------------------------|------------------------------|
| Parking Revenue Refunding 2002: | | | | | | | | |
| Bethesda Parking Lot District | 05/01/02 | 2003-09 | 3.00 - 5.00 | 14,560,000 | 12,435,000 | 223,750 | (463,302) | 12,195,448 |
| Silver Spring Parking Lot District | 05/01/02 | 2003-09 | 3.00 - 5.00 | 12,130,000 | 10,180,000 | 222,298 | (372,878) | 10,029,420 |
| Parking Revenue 2002A: | | | | | | | | |
| Bethesda Parking Lot District | 06/01/02 | 2003-21 | 3.00 - 4.75 | 26,000,000 | 24,990,000 | (24,887) | - | 24,965,113 |
| Solid Waste Refunding 2003A | 04/03/03 | 2004-13 | 3.00 - 5.00 | 31,075,000 | 31,075,000 | 1,496,437 | (1,638,285) | 30,933,152 |
| Total | | | | <u>\$ 83,765,000</u> | <u>\$ 78,680,000</u> | <u>\$ 1,917,598</u> | <u>\$ (2,474,465)</u> | <u>\$ 78,123,133</u> |

Changes in revenue bond principal during FY03 are as follows:

| | Balance July 1, 2002 | Bonds Issued | Bonds Retired | Bonds Refunded | Balance June 30, 2003 |
|------------------------------------|-------------------------|----------------------|---------------------|----------------------|--------------------------|
| Bethesda Parking Lot District | \$ 40,560,000 | \$ - | \$ 3,135,000 | \$ - | \$ 37,425,000 |
| Silver Spring Parking Lot District | 12,130,000 | - | 1,950,000 | - | 10,180,000 |
| Solid Waste Disposal | 34,145,000 | 31,075,000 | 2,320,000 | 31,825,000 | 31,075,000 |
| Total | <u>\$ 86,835,000</u> | <u>\$ 31,075,000</u> | <u>\$ 7,405,000</u> | <u>\$ 31,825,000</u> | <u>\$ 78,680,000</u> |

Revenue bond debt service requirements to maturity are as follows:

| Fiscal Year | Bethesda Parking Lot District | | Silver Spring Parking Lot District | |
|-------------------|-------------------------------|----------------------|------------------------------------|---------------------|
| Ending June 30 | Principal | Interest | Principal | Interest |
| 2004 | \$ 3,190,000 | \$ 1,509,278 | \$ 2,020,000 | \$ 388,387 |
| 2005 | 3,315,000 | 1,386,603 | 2,110,000 | 307,588 |
| 2006 | 3,430,000 | 1,282,103 | 2,180,000 | 244,288 |
| 2007 | 3,550,000 | 1,168,028 | 2,265,000 | 173,437 |
| 2008 | 2,595,000 | 1,043,778 | 780,000 | 60,187 |
| 2009-2013 | 7,845,000 | 3,920,389 | 825,000 | 30,937 |
| 2014-2018 | 7,825,000 | 2,428,918 | - | - |
| 2019-2021 | 5,675,000 | 547,011 | - | - |
| Total | <u>\$37,425,000</u> | <u>\$ 13,286,108</u> | <u>\$ 10,180,000</u> | <u>\$ 1,204,824</u> |

| Fiscal Year | Solid Waste Disposal | | Total Revenue Bond Requirements | | |
|-------------------|----------------------|---------------------|---------------------------------|----------------------|-----------------------|
| Ending June 30 | Principal | Interest | Principal | Interest | Total |
| 2004 | \$ 2,555,000 | \$ 1,456,033 | \$ 7,765,000 | \$ 3,353,698 | \$ 11,118,698 |
| 2005 | 2,835,000 | 1,177,350 | 8,260,000 | 2,871,541 | 11,131,541 |
| 2006 | 2,920,000 | 1,092,300 | 8,530,000 | 2,618,691 | 11,148,691 |
| 2007 | 3,005,000 | 1,004,700 | 8,820,000 | 2,346,165 | 11,166,165 |
| 2008 | 3,160,000 | 854,450 | 6,535,000 | 1,958,415 | 8,493,415 |
| 2009-2013 | 16,600,000 | 2,254,500 | 25,270,000 | 6,205,826 | 31,475,826 |
| 2014-2018 | - | - | 7,825,000 | 2,428,918 | 10,253,918 |
| 2019-2022 | - | - | 5,675,000 | 547,011 | 6,222,011 |
| Total | <u>\$31,075,000</u> | <u>\$ 7,839,333</u> | <u>\$ 78,680,000</u> | <u>\$ 22,330,265</u> | <u>\$ 101,010,265</u> |

Revenue bonds authorized and unissued as of June 30, 2003, are as follows:

| Purpose | Resolution Number | Year | Amount Authorized | Amount Unissued |
|-----------------------|----------------------|------|----------------------|----------------------|
| Parking Lot Districts | 11-1383 | 1989 | \$ 51,163,000 | \$ 42,088,000 |
| Parking Lot Districts | 14-921 | 2001 | 35,000,000 | 9,000,000 |
| Solid Waste Disposal | 12-1010 | 1993 | <u>56,935,000</u> | <u>6,255,000</u> |
| Total | | | <u>\$143,098,000</u> | <u>\$ 57,343,000</u> |

Restricted assets related to these revenue bonds, classified as “Investments” or “Equity in Pooled Cash and Investments” for statement of net asset purposes, include the following:

| Purpose | Bethesda Parking Lot District | Silver Spring Parking Lot District | Solid Waste Disposal |
|---|-------------------------------------|--|----------------------------|
| Operation and Maintenance Account - Available to pay current expenses | \$ 857,329 | \$ 1,063,729 | \$ - |
| Debt Service Account - Used to pay debt service on bonds | 387,023 | 200,699 | - |
| Debt Service Reserve Account (including accrued interest) - Available to pay debt service on bonds if there is insufficient money available in the Debt Service Account | - | - | 3,153,552 |
| Renewal and Renovation Account - Available for payment of renewals, replacements, renovations, and unusual and extraordinary repairs | 1,500,000 | 1,500,000 | 2,016,500 |
| Rate Covenant Cash Reserve - Available to fund operating activities for a minimum of three months | - | - | 20,588,675 |
| Rate Stabilization Account - In case of short-term extraordinary expenses | <u>-</u> | <u>-</u> | <u>8,878,610</u> |
| Total | <u>\$ 2,744,352</u> | <u>\$ 2,764,428</u> | <u>\$ 34,637,337</u> |

The remaining balance of Parking Lot District Activities restricted assets of \$104,334 represents unspent bond proceeds on hand at year-end.

In lieu of Debt Service Reserve Accounts, the 2002 Series Parking Refunding Bonds and the 2002 Series A Parking Revenue Bonds are being secured with a municipal bond insurance policy. The County is in compliance with all significant financial bond covenants.

3) **Bond Anticipation Notes Payable**

Commercial paper bond anticipation notes (BANs) are authorized, issued, and outstanding as financing sources for capital construction and improvements. Changes in BANs during FY03 are as follows:

| | Balance July 1, 2002 | BANs Issued | BANs Retired | Balance June 30, 2003 |
|-------------------|-------------------------|-----------------------|-----------------------|--------------------------|
| BAN Series 2002-A | \$ 125,000,000 | \$ - | \$ 125,000,000 | \$ - |
| BAN Series 2002-B | - | 75,000,000 | 30,000,000 | 45,000,000 |
| BAN Series 2002-C | - | 80,000,000 | - | 80,000,000 |
| Total | <u>\$ 125,000,000</u> | <u>\$ 155,000,000</u> | <u>\$ 155,000,000</u> | <u>\$ 125,000,000</u> |

BAN Notes, Series 2002-A, totaling \$125,000,000 were retired on May 29, May 30, and June 10, 2003 in the amounts of \$105,400,000, \$17,600,000 and \$2,000,000 respectively with proceeds from general obligation bonds dated May 1, 2003. A portion of BAN Notes, Series 2002-B, totaling \$75,000,000 was retired on May 29, 2003 in the amount \$30,000,000 with proceeds from general obligation bonds dated May 1, 2003.

The interest rate changes based on market conditions. During FY03, the rate of interest varied from .85 to 1.85 percent. Interest earned on BAN proceeds totaled \$680,701 during FY03, which was accounted for in the Debt Service Fund.

BANs totaling \$155 million were issued during FY03 at varying maturities to a maximum of 270 days, under a program whose authority was adopted on June 11, 2002 and was amended on July 16, 2002 to consolidate additional authority to borrow money and incur indebtedness. The County reissued the notes upon maturity and will continue to do so, until they are replaced with long-term bonds. The County will issue long-term bonds in FY04, and intends to use the proceeds to replace a portion of the \$125 million in BANs outstanding at June 30, 2003. In connection with these BANs, the County entered into a line of credit agreement on June 15, 2002, with Toronto-Dominion Bank, acting through its Houston agency, under which the County may borrow, on a revolving basis, up to \$200 million to pay the principal on the notes, and up to \$14.8 million to pay the interest. Any principal advances under the line of credit must be repaid in semi-annual installments over five years after the advance occurs. No amounts were advanced against this line of credit. Because the County entered into a financing agreement that ensures the BANs can be refinanced on a long-term basis, these BANs are classified as noncurrent liabilities at year-end.

Per Resolution No. 14-1307 dated June 11, 2002, and Resolution No. 14-1374 dated July 16, 2002, the amount of BANs authorized and unissued as of June 30, 2003, is \$80,695,000.

4) Certificates of Participation

In June 2001, the County issued Certificates of Participation (certificates) for its Equipment Acquisition Program dated June 1, 2001, in the amount of \$54.66 million. The certificates represent proportionate interests in a Conditional Purchase Agreement (CPA) between the County, as purchaser, and First Union National Bank, as seller, for the acquisition of certain equipment to be used in the public safety and public transportation programs of the County. The CPA requires the County, as purchaser, to make periodic purchase installments in amounts sufficient to pay the scheduled debt service on the certificates until the County pays the entire price necessary to acquire the equipment, which shall be equal to the amount necessary to pay the principal and interest on all outstanding certificates. The ability of the County, as purchaser, to pay the purchase installments due under the CPA depends upon sufficient funds being appropriated each year by the County Council for such purpose. The County may terminate the CPA at the end of the last fiscal year or earlier date for which an appropriation is available if sufficient funds are not appropriated for any fiscal year. The County Council is under no obligation to make any appropriation with respect to the CPA. The CPA is not a general obligation of the County and does not constitute an indebtedness of the County within the meaning of any constitutional or statutory limitation or a charge against the general credit or taxing powers of the County.

The certificates were issued at interest rates ranging from 4 to 4.5 percent and have a maturity schedule as follows:

| Fiscal Year Ending June 30 | Certificates of Participation | | |
|----------------------------------|-------------------------------|---------------------|----------------------|
| | Principal | Interest | Total |
| 2004 | \$ 12,355,000 | \$ 1,335,287 | \$ 13,690,287 |
| 2005 | 9,435,000 | 841,087 | 10,276,087 |
| 2006 | 9,780,000 | 440,100 | 10,220,100 |
| Total | <u>\$ 31,570,000</u> | <u>\$ 2,616,474</u> | <u>\$ 34,186,474</u> |

5) Lease Revenue Bonds

In June 2002, the County issued Lease Revenue Bonds dated June 1, 2002, in the amount of \$37.88 million for its Metrorail garage projects. These bonds were issued to finance the costs of the planning, design, construction, and placing into commercial operation, of garages at the Shady Grove and Grosvenor Metrorail Stations. The County has leased these metrorail garage projects to the Washington Metropolitan Area Transit Authority ("WMATA"). The bonds are payable from and secured by a pledge of revenues from WMATA's lease payments and certain reserve funds. WMATA's obligation to make payments under the leases are payable solely from amounts held in a Surcharge Reserve Account which is funded by revenues from a surcharge on the parking facilities. WMATA is not obligated to pay the principal or interest on the bonds. In the event that the County's Reserve Subfund is less than the required amount, the County Executive is obligated to include, in the next subsequent appropriation request to the County Council, a request for sufficient resources to reimburse the Reserve Subfund. The Lease Revenue Bonds are not a debt of the County within the meaning of any constitutional, compact, charter or statutory debt limit or restriction. Neither the faith and credit nor the taxing power of the County is pledged to the payment of the bonds.

Lease Revenue Bonds outstanding as of June 30, 2003, are as follows:

| | Dated Date | Maturity | Interest Rate | Originally Issued | Balance June 30, 2003 | Unamortized Premium | Carrying Value June 30, 2003 |
|---------------------|---------------|----------|---------------|----------------------|--------------------------|------------------------|---------------------------------|
| Lease Revenue Bonds | 06/01/02 | 2005-24 | 4.6064% | \$ 37,880,000 | \$ 37,880,000 | \$ 146,286 | \$ 38,026,286 |

Lease Revenue Bonds debt service requirements to maturity are as follows:

| Fiscal Year Ending June 30 | Lease Revenue Bonds Requirements | | |
|----------------------------------|----------------------------------|----------------------|----------------------|
| | Principal | Interest | Total |
| 2004 | \$ - | \$ 1,682,005 | \$ 1,682,005 |
| 2005 | 1,200,000 | 1,682,005 | 2,882,005 |
| 2006 | 1,305,000 | 1,643,005 | 2,948,005 |
| 2007 | 1,350,000 | 1,598,961 | 2,948,961 |
| 2008 | 1,395,000 | 1,551,711 | 2,946,711 |
| 2009-2013 | 7,860,000 | 6,888,529 | 14,748,529 |
| 2014-2018 | 9,760,000 | 5,069,500 | 14,829,500 |
| 2019-2023 | 12,395,000 | 2,567,530 | 14,962,530 |
| 2024 | 2,615,000 | 130,750 | 2,745,750 |
| Total | <u>\$ 37,880,000</u> | <u>\$ 22,813,996</u> | <u>\$ 60,693,996</u> |

6) **State MICRF Loan**

In September 1998, the County entered into a \$1,800,000 long-term loan agreement with the Maryland Industrial and Commercial Redevelopment Fund (MICRF). In accordance with terms of the loan, the proceeds have been reloaned to a private corporation for purposes of renovation and relocation of facilities to the County. After fulfilling the necessary requirements, \$150,000 of the loan was converted to a State grant during FY02. Although it is expected that the County's loan with MICRF will be repaid by loan repayments received from the private user, the County's loan is a full faith and credit obligation of the County. The principal amount payable at June 30, 2003, for this loan is \$1,341,206.

7) Changes in Long-Term Liabilities

Long-term liability activity for the year ended June 30, 2003, was as follows:

| | Balance July 1, 2002 | Additions | Reductions | Balance June 30, 2003 | Due within one year |
|--|-------------------------|----------------|------------------|--------------------------|------------------------|
| Governmental Activities | | | | | |
| Bonds and Notes Payable: | | | | | |
| General obligation bonds | \$ 1,241,920,821 | \$ 248,595,000 | \$ (202,415,149) | \$ 1,288,100,672 | \$ 110,630,749 |
| Bond anticipation notes | 125,000,000 | 155,000,000 | (155,000,000) | 125,000,000 | 125,000,000 |
| Equipment notes payable | - | 1,136,112 | (47,374) | 1,088,738 | 215,570 |
| Lease revenue bonds | 37,880,000 | - | - | 37,880,000 | - |
| State MICRF loan | 1,408,951 | - | (67,745) | 1,341,206 | 70,221 |
| Subtotal | 1,406,209,772 | 404,731,112 | (357,530,268) | 1,453,410,616 | 235,916,540 |
| Add remaining original issue premium | 11,620,152 | 11,405,472 | (2,057,183) | 20,968,441 | - |
| Less deferred amount on refundings | (10,944,672) | (7,557,499) | 1,746,829 | (16,755,342) | - |
| Total Bonds and Notes Payable | 1,406,885,252 | 408,579,085 | (357,840,622) | 1,457,623,715 | 235,916,540 |
| Other Liabilities: | | | | | |
| Certificates of participation | 43,530,000 | - | (11,960,000) | 31,570,000 | 12,355,000 |
| Due to Component Units - HOC loan | - | 2,550,000 | - | 2,550,000 | - |
| Compensated absences | 44,130,412 | 33,875,695 | (32,260,160) | 45,745,947 | 34,309,460 |
| Capital leases | 19,940,589 | 11,776,945 | (515,589) | 31,201,945 | 4,465,000 |
| Claims and judgments | 3,150,000 | 3,824,000 | - | 6,974,000 | 5,474,000 |
| Total Other Liabilities | 110,751,001 | 52,026,640 | (44,735,749) | 118,041,892 | 56,603,460 |
| Governmental Activities Long-Term Liabilities | \$ 1,517,636,253 | \$ 460,605,725 | \$ (402,576,371) | \$ 1,575,665,607 | \$ 292,520,000 |
| Business-Type Activities | | | | | |
| General Obligation Bonds: | | | | | |
| Bethesda PLD Enterprise Fund | \$ 250,000 | \$ - | \$ (250,000) | \$ - | \$ - |
| Silver Spring PLD Enterprise Fund | 100,000 | - | (100,000) | - | - |
| Solid Waste Disposal Enterprise Fund | 282,233 | - | (89,851) | 192,382 | 84,251 |
| Revenue Bonds: | | | | | |
| Parking revenue refunding bonds | 26,690,000 | - | (4,075,000) | 22,615,000 | 4,225,000 |
| Parking revenue bonds | 26,000,000 | - | (1,010,000) | 24,990,000 | 985,000 |
| Solid waste disposal revenue bonds | 34,145,000 | - | (34,145,000) | - | - |
| Solid waste disposal revenue refunding bonds | - | 31,075,000 | - | 31,075,000 | 2,555,000 |
| Subtotal | 87,467,233 | 31,075,000 | (39,669,851) | 78,872,382 | 7,849,251 |
| Add remaining original issue premium | 601,847 | 1,565,241 | (224,603) | 1,942,485 | - |
| Less remaining original issue discount | (268,406) | - | 243,519 | (24,887) | - |
| Less deferred amount on refundings | (1,126,685) | (1,713,610) | 365,830 | (2,474,465) | - |
| Total Bonds and Notes Payable | 86,673,989 | 30,926,631 | (39,285,105) | 78,315,515 | 7,849,251 |
| Other Liabilities: | | | | | |
| Compensated absences | 3,113,884 | 275,028 | - | 3,388,912 | 2,541,684 |
| Notes payable | 800,000 | - | - | 800,000 | - |
| Landfill closure costs | 24,687,900 | - | (833,377) | 23,854,523 | 1,547,000 |
| Total Other Liabilities | 28,601,784 | 275,028 | (833,377) | 28,043,435 | 4,088,684 |
| Business-Type Activities Long-Term Liabilities | \$ 115,275,773 | \$ 31,201,659 | \$ (40,118,482) | \$ 106,358,950 | \$ 11,937,935 |

Internal service funds predominantly serve the governmental funds. Accordingly, long-term liabilities for them are included as part of the above totals for governmental activities. At year-end, \$1,141,764 (\$856,323 due within one year, and \$285,441 due in more than one year) of internal service fund compensated absences are included in the above amounts. Also, for the governmental activities, compensated absences and claims and judgments are generally liquidated by the governmental fund to which the liability relates.

8) Conduit Debt Obligations

Conduit debt obligations refer to certain limited-obligation revenue bonds or similar debt instruments issued by the County for the purpose of providing capital financing for a third party that is not part of the County's reporting entity (see Note I-A). From time to time, the County has issued Industrial Revenue Bonds and Economic Development Revenue Bonds for the purposes of financing or refinancing costs of acquiring facilities for third party facility users or of refunding outstanding bonds. Facility users may be individuals, public or private corporations, or other entities. The bonds are secured by the facilities financed and are payable from the revenues or monies to be received by the County under loan agreements with the facility users and from other monies made available to the County for such purpose. The bonds do not constitute a debt or charge against the general credit or taxing powers of the County, the State, or any political subdivision thereof. Accordingly, the bonds are not reported as liabilities in the accompanying financial statements.

As of June 30, 2003, there were 40 issues of Industrial Revenue Bonds and Economic Development Revenue Bonds outstanding. Of these, 29 were issued prior to July 1, 1996. The aggregate principal amount payable at June 30, 2003, for bonds issued prior to July 1, 1996, could not be determined; however, their original issue amounts totaled \$221,937,000. The principal amount payable at June 30, 2003, for bonds issued after July 1, 1996, totaled \$155,481,666.

9) Special Taxing Districts

Three development districts have been created in the County: Kingsview Village Center, West Germantown, and Clarksburg Town Center. These development districts were created in accordance with Chapter 14 of the Montgomery County Code, Montgomery County Development District Act enacted in 1994. The creation of these districts allows the County to provide financing, refinancing, or reimbursement for the cost of infrastructure improvements necessary for the development of land in areas with high priority for new development or redevelopment.

Pursuant to Chapter 14, special taxes and/or assessments may be levied to fund the costs of bonds or other obligations issued on behalf of the respective district. Any bond issued under Chapter 14 is not an indebtedness of the County within the meaning of Section 312 of the Charter. Additionally, any bond issued must not pledge the full faith and credit of the County and must state that the full faith and credit is not pledged to pay its principal, interest, or premium, if any. Any bonds issued are not considered liabilities of the County and are not reported in the County's financial statements.

In December 1999, the County issued \$2.41 million in special obligation bonds on behalf of the Kingsview Village Center Development District. Special taxes and assessment were levied beginning in FY01 to repay this debt. In April 2002, the County issued two series of special obligation bonds on behalf of the West Germantown Development District. The County issued \$11,600,000 of Senior Series 2002A bonds and \$4,315,000 of Junior Series 2002B bonds to finance the construction of infrastructure in the development district. Special taxes and assessments were levied beginning in FY03 to repay this debt. Bonds have not yet been issued for the Clarksburg Town Center development district.

The County has been petitioned by property owners to form two additional development districts in the Clarksburg area, Clarksburg Village and Clarksburg Skylark. These districts are still in the evaluation phase.

10) Due to Component Unit – HOC Loan

On March 31, 2003, with the assistance of the Housing Opportunities Commission (HOC), the County acquired the former Econo Lodge in Gaithersburg. The property will be converted to a facility providing housing for eligible families and individuals. A portion of the funding for the acquisition, \$2.55 million, came from the HOC MPDU/Property Acquisition Fund. The County used this interim financing source until a permanent financing source can be identified. The County will repay HOC, and therefore the Fund, by April 1, 2005.

COMPONENT UNITS

At June 30, 2003, HOC's noncurrent liabilities are comprised of the following:

| | |
|------------------------|-----------------------|
| Revenue bonds payable | \$ 627,338,995 |
| Capital leases payable | 19,981,118 |
| Notes payable | 96,591,442 |
| Total | <u>\$ 743,911,555</u> |

HOC revenue bonds, which are significant in relation to the total component unit long-term debt, are outstanding as follows:

| | |
|--|-----------------------|
| <u>Purpose</u> | |
| Multi-Family Mortgage Purchase Program Fund | \$ 369,301,033 |
| Single Family Mortgage Purchase Program Fund | 258,037,962 |
| Total | <u>\$ 627,338,995</u> |

Interest rates on the HOC Multi-Family and Single Family Mortgage Purchase Program Fund bonds ranged from 3.5 to 11.25 percent and 3.614 to 8.875 percent, respectively, as of June 30, 2003.

Pursuant to Section 2-103 of Article 44A of the Annotated Code of Maryland, the County may, by local law, provide its full faith and credit as guarantee of bonds issued by HOC in principal amount not exceeding \$50,000,000. Section 20-32 of the Montgomery County Code provides the method by which the County has implemented the guarantee. The debt service requirements by fiscal year for the HOC debt guaranteed by the Primary Government are as follows:

| Fiscal Year Ending June 30 | Guaranteed Revenue Bond Requirements | | |
|-------------------------------|--------------------------------------|----------------------|----------------------|
| | Principal | Interest | Total |
| 2004 | \$ 255,000 | \$ 585,955 | \$ 840,955 |
| 2005 | 265,000 | 576,010 | 841,010 |
| 2006 | 275,000 | 576,010 | 851,010 |
| 2007 | 290,000 | 565,542 | 855,542 |
| 2008 | 300,000 | 554,542 | 854,542 |
| 2009-2013 | 1,700,000 | 2,582,818 | 4,282,818 |
| 2014-2018 | 790,000 | 2,201,998 | 2,991,998 |
| 2019-2023 | 2,880,000 | 1,803,071 | 4,683,071 |
| 2024-2028 | - | 1,371,065 | 1,371,065 |
| 2029-2033 | 5,430,000 | 274,213 | 5,704,213 |
| Total | <u>\$ 12,185,000</u> | <u>\$ 11,091,224</u> | <u>\$ 23,276,224</u> |

The total debt service requirements for HOC revenue bonds, which include the portion guaranteed by the Primary Government (presented above), are as follows:

| Fiscal Year Ending June 30 | Total Revenue Bond Requirements | | |
|-------------------------------|---------------------------------|-----------------------|-------------------------|
| | Principal | Interest | Total |
| 2004 | \$ 52,495,714 | \$ 25,841,117 | \$ 78,336,831 |
| 2005 | 10,570,000 | 25,787,191 | 36,357,191 |
| 2006 | 11,045,000 | 26,026,051 | 37,071,051 |
| 2007 | 12,260,000 | 24,729,832 | 36,989,832 |
| 2008 | 11,895,000 | 24,300,441 | 36,195,441 |
| 2009-2013 | 61,780,000 | 113,799,108 | 175,579,108 |
| 2014-2018 | 69,415,000 | 102,209,930 | 171,624,930 |
| 2019-2023 | 66,426,341 | 92,126,894 | 158,553,235 |
| 2024-2028 | 79,192,973 | 84,805,753 | 163,998,726 |
| 2029-2033 | 165,172,636 | 37,421,522 | 202,594,158 |
| 2034-2038 | 33,580,000 | 12,782,161 | 46,362,161 |
| 2039-2043 | 10,395,000 | 7,046,700 | 17,441,700 |
| 2044-2046 | 48,385,000 | 775,468 | 49,160,468 |
| Unamortized Bond Discount | (5,273,669) | - | (5,273,669) |
| Total | <u>\$ 627,338,995</u> | <u>\$ 577,652,168</u> | <u>\$ 1,204,991,163</u> |

Changes in the HOC revenue bonds during FY03 are as follows:

| Purpose | Balance July 1, 2002 | Bonds Issued * | Bonds Retired | Balance June 30, 2003 |
|--|-------------------------|-----------------------|-----------------------|--------------------------|
| Multi-Family Mortgage Purchase Program Fund | \$ 314,736,124 | \$ 88,414,909 | \$ 33,850,000 | \$ 369,301,033 |
| Single Family Mortgage Purchase Program Fund | 297,739,230 | 73,739,792 | 113,441,060 | 258,037,962 |
| Total | <u>\$ 612,475,354</u> | <u>\$ 162,154,701</u> | <u>\$ 147,291,060</u> | <u>\$ 627,338,995</u> |

* Includes accretions and bond discounts.

The County is not liable in any manner for the remaining debt of HOC or any debt of MCPS, MCC, or MCRA. BUPI has no long-term debt.

HOC has issued a number of individual bonds for financing multi-family developments for which HOC has no legal liability for repayment or administration (conduit debt), and accordingly, the bonds are not included in the accompanying financial statements. HOC participates in such issuances in order to increase the availability of affordable housing in the County. The bonds outstanding are summarized below:

| | |
|----------------------------------|-----------------------|
| Bonds outstanding, July 1, 2002 | \$ 339,969,285 |
| Redemptions during the year | (24,813,404) |
| New issuances during the year | - |
| Bonds outstanding, June 30, 2003 | <u>\$ 315,155,881</u> |

G) Segment Information

The County has issued revenue bonds to finance activities relating to solid waste disposal operations, including recycling, and the Silver Spring and Bethesda Parking Lot districts (PLDs). The Solid Waste Disposal operations and the Silver Spring and Bethesda PLDs are accounted for within the Solid Waste Disposal and Collection Fund and the Parking Lot Districts Fund, respectively. However, investors in the revenue bonds rely solely on the revenue generated by the individual activities for repayment. Summary financial information for each activity as of and for the year ended June 30, 2003, is presented below:

Condensed Statements of Net Assets

| | Solid Waste Disposal | Silver Spring PLD | Bethesda PLD |
|---|-------------------------|----------------------|----------------------|
| ASSETS | | | |
| Current assets | \$ 53,522,540 | \$ 5,233,350 | \$ 20,458,033 |
| Due from component units | 13,775 | - | 46,497 |
| Other assets | 35,244,238 | 2,883,454 | 3,441,062 |
| Capital assets | 36,580,206 | 51,394,919 | 74,628,550 |
| Total Assets | <u>125,360,759</u> | <u>59,511,723</u> | <u>98,574,142</u> |
| LIABILITIES | | | |
| Current liabilities | 12,622,846 | 2,879,606 | 5,092,168 |
| Due to other funds | 55,504 | 9,403 | 9,505 |
| Long-term liabilities | 51,691,446 | 8,038,272 | 34,000,597 |
| Total Liabilities | <u>64,369,796</u> | <u>10,927,281</u> | <u>39,102,270</u> |
| NET ASSETS | | | |
| Invested in capital assets, net of related debt | 5,454,672 | 41,365,499 | 37,467,989 |
| Restricted for debt service | 34,637,337 | 2,764,428 | 2,848,686 |
| Unrestricted | 20,898,954 | 4,454,515 | 19,155,197 |
| Total Net Assets | <u>\$ 60,990,963</u> | <u>\$ 48,584,442</u> | <u>\$ 59,471,872</u> |

Condensed Statements of Revenues, Expenses, and Changes in Fund Net Assets

| | Solid Waste Disposal | Silver Spring PLD | Bethesda PLD |
|--|-------------------------|----------------------|-----------------|
| OPERATING REVENUES (EXPENSES): | | | |
| Operating Revenues: | | | |
| Charges for services | \$ 85,932,194 | \$ 4,859,503 | \$ 7,943,266 |
| Licenses and permits | 10,145 | - | - |
| Fines and penalties | 57,835 | 1,112,783 | 4,262,084 |
| Total Operating Revenues (pledged against bonds) | 86,000,174 | 5,972,286 | 12,205,350 |
| Depreciation and amortization expense | 3,089,596 | 2,144,510 | 3,093,682 |
| Other operating expenses | 80,007,807 | 5,923,323 | 4,929,120 |
| Operating Income (Loss) | 2,902,771 | (2,095,547) | 4,182,548 |
| NONOPERATING REVENUES (EXPENSES): | | | |
| Property taxes | - | 3,261,597 | 3,443,038 |
| Gain on disposal of capital assets | 58,750 | - | - |
| Investment income | 2,192,984 | 127,407 | 407,108 |
| Interest expense | (2,120,598) | (523,250) | (1,738,881) |
| Other revenue | 79,883 | 1,809,261 | 94,051 |
| SPECIAL ITEM | | | |
| Depreciation adjustment | 241,534 | - | - |
| Loss on disposal of capital asset | - | (3,938,026) | - |
| TRANSFERS: | | | |
| Transfers in | - | 11,776,945 | - |
| Transfers out | (1,381,410) | (677,756) | (3,211,864) |
| Change in Net Assets | 1,973,914 | 9,740,631 | 3,176,000 |
| Beginning Net Assets | 59,017,049 | 38,843,811 | 56,295,872 |
| Ending Net Assets | \$ 60,990,963 | \$ 48,584,442 | \$ 59,471,872 |

Condensed Statements of Cash Flows

| | Solid Waste Disposal | Silver Spring PLD | Bethesda PLD |
|--|-------------------------|----------------------|-----------------|
| Net Cash Provided (Used) By: | | | |
| Operating activities | \$ 7,329,986 | \$ 876,184 | \$ 6,717,048 |
| Noncapital financing activities | (1,381,410) | 2,677,850 | 173,825 |
| Capital and related financing activities | (6,436,454) | (3,624,633) | (11,446,948) |
| Investing activities | 1,733,968 | 127,407 | 407,108 |
| Net Increase (Decrease) | 1,246,090 | 56,808 | (4,148,967) |
| Beginning Cash and Cash Equivalents | 80,431,515 | 6,479,325 | 25,862,753 |
| Ending Cash and Cash Equivalents | \$ 81,677,605 | \$ 6,536,133 | \$ 21,713,786 |

H) Fund Equity

1) Federal and State Grant Programs

Included in the financial statements are expenditures and revenues related to Federal and State grant programs for which the County is the grantee. The reserve for encumbrances in the governmental fund types does not include \$10,268,495 of encumbrances related to these grants, since appropriation and spending on such grants is contingent on receipt of the grant funds. When the expenditure occurs in the subsequent year, revenue will be earned based on the grant agreements, and resources will then be made available. The County believes that inclusion of such encumbrances as reserved fund balance would distort the unreserved fund balance.

I) Significant Transactions with Discretely Presented Component Units

1) Operating and Capital Funding

Expenditures incurred for operating and capital funding of discretely presented component units amounted to the following for the year ended June 30, 2003:

| | General Fund | | | Capital | |
|-------|------------------------|----------------------|------------------------|----------------------|------------------------|
| | Operating | Capital * | Total | Projects | Total |
| MCPS | \$1,066,260,268 | \$ 24,912,435 | \$1,091,172,703 | \$ 53,063,082 | \$1,144,235,785 |
| MCC | 61,803,955 | 5,808,476 | 67,612,431 | 14,073,342 | 81,685,773 |
| HOC | 4,185,562 | 373,254 | 4,558,816 | - | 4,558,816 |
| Total | <u>\$1,132,249,785</u> | <u>\$ 31,094,165</u> | <u>\$1,163,343,950</u> | <u>\$ 67,136,424</u> | <u>\$1,230,480,374</u> |

* Represents current receipt and pay-go funding transferred from the General Fund for component units' use towards their capital projects.

For GAAP financial statement reporting purposes, General Fund expenditures incurred for funding of MCPS and MCC are classified as education expenditures; HOC funding is classified under community development and housing.

2) Other Transactions

BUPI charges for services revenue includes \$2,112,315 earned under contracts with the County. For capital leases with MCRA, see Note III-E2. For mortgages receivable due from HOC, see Note III-B2.

J) Special Items

1) Depreciation Adjustment

During FY03, in conjunction with the implementation of a capital assets system, the County changed its depreciation method for substantially all proprietary funds to straight line based on the month placed in service. Prior to FY03, various other generally accepted methods were used. The new method is determined to more accurately report depreciation. The cumulative effect of this change, reported as a special item in the accompanying financial statements, is a reduction of depreciation expense as follows:

| | |
|--|-----------------------|
| Solid Waste Disposal and Collection Activities | \$ (241,534) |
| Nonmajor Enterprise | (357,931) |
| Internal Service | (956,978) |
| Total cumulative effect | <u>\$ (1,556,443)</u> |

2) Loss on Disposal of Capital Asset

During FY03, as part of the redevelopment of downtown Silver Spring, the County demolished a significant portion of a garage located in the Silver Spring Parking Lot District, in order to allow for construction of the new Wayne Avenue garage. The new garage, under construction at year-end, is being leased from the Maryland Economic Development Corporation (see Note III-E3). The loss on disposal of the old garage of \$3,938,026, representing its net book value, has been reported as a special item in the accompanying financial statements.

NOTE IV. OTHER INFORMATION

A) Risk Management

The County, for itself and certain component units and other governments, maintains two self-insurance internal service funds. County management believes it is more economical to manage its risks internally and set aside assets for claim settlements in these internal service funds.

One fund is maintained for Liability and Property Coverage under which participants share the costs of workers' compensation; comprehensive general; automobile and professional liability (errors and omissions); property coverage including fire and theft; and other selected areas which require coverage. Commercial insurance is purchased for claims in excess of coverage provided by the self-insurance fund and for other risks not covered by the fund. In addition to all funds of the County, participants in this program include the Montgomery County Public Schools, the Montgomery Community College, the Maryland-National Capital Park and Planning Commission, the City of Rockville, the Montgomery County Revenue Authority, the Housing Opportunities Commission of Montgomery County, the independent fire/rescue corporations, the Bethesda-Chevy Chase Rescue Squad, the Rockville Housing Enterprises, the Town of Somerset, the Village of Martin's Additions, the City of Gaithersburg, the Bethesda Urban Partnership, Inc., the Village of Drummond, and the City of Takoma Park. The liability for claims with respect to all participants transfers to the self-insurance fund, except for the Maryland-National Capital Park and Planning Commission which retains ultimate liability for its own claims.

The second fund is maintained for Employee Health Benefits under which participants share medical, dental, and life insurance. The Washington Suburban Transit Commission, the Bethesda Urban Partnership, Inc., Montgomery Community Television, the Strathmore Hall Foundation, Inc., and certain employees of the State of Maryland in addition to some of the participants in the Liability and Property Coverage Program, participate in this program.

Both internal service funds use the accrual basis of accounting. Payments to the Liability and Property Coverage Fund by participants and recognition of the fund's liability for unpaid claims including those incurred but not reported are based on actuarial estimates. For the Employee Health Benefits Fund, charges to participants are based on actuarial estimates. Liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported. Because actual claims liabilities depend on complex factors such as inflation, changes in legal doctrines, and damage awards, the process used in computing claims liability does not necessarily result in an exact amount. Claims liabilities are reevaluated periodically to take into consideration recently settled claims, the frequency of claims, and other economic and social factors. During the year, there were no significant reductions in commercial insurance coverage in either fund from the prior year. For the past three years, no insurance settlements exceeded commercial insurance coverage in either fund.

Changes in the balances of Claims Payable for the self-insurance funds for FY03 and FY02 are as follows:

| | Liability and Property Coverage | Employee Health Benefits |
|---------------------------------|---------------------------------------|--------------------------------|
| Balance July 1, 2001 | \$ 44,018,000 | \$ 6,692,511 |
| Claims and changes in estimates | 23,045,585 | 74,555,694 |
| Claim payments * | (17,038,585) | (72,950,251) |
| Balance June 30, 2002 | 50,025,000 | 8,297,954 |
| Claims and changes in estimates | 26,112,574 | 84,674,426 |
| Claim payments * | (18,401,574) | (84,144,134) |
| Balance June 30, 2003 ** | <u>\$ 57,736,000</u> | <u>\$ 8,828,246</u> |

* Includes non-monetary settlements.

** Includes incurred but not reported claims of \$28,040,000 and \$8,828,246, for the Liability and Property Coverage and the Employee Health Benefits Self-Insurance Funds, respectively.

B) Significant Commitments and Contingencies

1) Landfill

The County, in its effort to provide for estimated landfill capping and postclosure maintenance costs, accrues such costs and recognizes those costs as expenses as the landfill is utilized. The October 9, 1991 U.S. Environmental Protection Agency (EPA) rule, "Solid Waste Disposal Criteria," established closure requirements for all municipal solid waste landfills (MSWLFs) that receive waste after October 9, 1991. The County has been accruing closure expenses since FY91 in an attempt to match the costs of closure against the revenues associated with the use of the landfill. GASB Statement No. 18, issued in August 1993, expanded the items considered in the original EPA calculation of closure costs. The expanded requirements include postclosure care for thirty years for landfills accepting refuse materials after October 1991. The Oaks Landfill closed on October 22, 1997, and the County began using out-of-County waste hauling during FY98. At the time the landfill was closed, total cumulative capacity used was 6,990,437 tons. The total closure and postclosure costs are estimated at \$53,045,000, which has been fully accrued through June 30, 2003. Of the total amount accrued, \$28,059,100 in actual costs has been paid out in prior years, and \$1,131,377 was paid in FY03, resulting in a net liability of \$23,854,523 at June 30, 2003. The current and non-current portions of the adjusted liability at year-end are estimated at \$1,547,000 and \$22,307,523 respectively. These costs are subject to change based on cost differences, changes in technology, or applications of laws and regulations. The County plans to use primarily operating cash to pay for these closure and postclosure costs as they are incurred in the future.

2) Litigation

In addition to those suits in which claims for liability are adequately covered by insurance, the County is a defendant in various suits involving tort claims, violations of civil rights, breach of contract, inverse condemnation, and other suits arising in the normal course of business. In the opinion of the County Attorney, the estimated liability of the County in the resolution of these cases will not exceed \$10,874,000. Of this amount, \$6,974,000 has been reflected as a liability in the accompanying governmental activities financial statements, as the County's liability on certain claims appears to be probable.

3) Grants, Entitlements, and Shared Revenues

The County participates in a number of Federal and State assisted grant, entitlement, and/or reimbursement programs, principal of which are the Community Development Block Grant, the Head Start Grant, Community Mental Health Grant, and the Medical Assistance Grant. These programs are subject to financial and compliance audits by the grantors or their representatives. The audits of most of these programs for, or including, the year-ended June 30, 2003, have not yet been completed. In accordance with the provisions of the Single Audit Act of 1984 and Circular A-133, issued by the U.S. Office of Management and Budget, the County participates in single audits of federally assisted programs. The amount of expenditures which may be disallowed by the granting agencies cannot be determined at this time, although management does not believe amounts ultimately disallowed, if any, would be material.

4) Other Commitments

County proprietary funds have entered into contract commitments that remain uncompleted as of year-end. The amount of outstanding commitments at June 30, 2003, are as follows:

| <u>Enterprise Funds:</u> | <u>Operating</u> | <u>Capital</u> | <u>Inventory</u> | <u>Total</u> |
|--|---------------------|---------------------|----------------------|----------------------|
| Major Funds: | | | | |
| Liquor | \$ 35,730 | \$ - | \$ 7,599,188 | \$ 7,634,918 |
| Solid Waste Disposal and Collection: | | | | |
| Disposal operations | 3,066,526 | 1,236,714 | - | 4,303,240 |
| Collection operations | 55,066 | - | - | 55,066 |
| Parking Lot Districts: | | | | |
| Silver Spring | 282,889 | 1,270,064 | - | 1,552,953 |
| Bethesda | 315,659 | 1,948,400 | - | 2,264,059 |
| Wheaton | 124,353 | 171,868 | - | 296,221 |
| Montgomery Hills | 8,610 | - | - | 8,610 |
| Subtotal | <u>3,888,833</u> | <u>4,627,046</u> | <u>7,599,188</u> | <u>16,115,067</u> |
| Nonmajor Funds: | | | | |
| Permitting Services | 42,786 | - | - | 42,786 |
| Community Use of Public Facilities | 1,158 | - | - | 1,158 |
| Subtotal | <u>43,944</u> | <u>-</u> | <u>-</u> | <u>43,944</u> |
| Total Enterprise Funds | <u>3,932,777</u> | <u>4,627,046</u> | <u>7,599,188</u> | <u>16,159,011</u> |
| <u>Internal Service Funds:</u> | | | | |
| Motor Pool | 4,424,515 | - | 4,097,096 | 8,521,611 |
| Central Duplicating | 104,212 | - | - | 104,212 |
| Liability and Property Coverage Self-Insurance | 116,689 | - | - | 116,689 |
| Employee Health Benefits Self-Insurance | 131,663 | - | - | 131,663 |
| Total Internal Service Funds | <u>4,777,079</u> | <u>-</u> | <u>4,097,096</u> | <u>8,874,175</u> |
| Total Proprietary Funds | <u>\$ 8,709,856</u> | <u>\$ 4,627,046</u> | <u>\$ 11,696,284</u> | <u>\$ 25,033,186</u> |

As of June 30, 2003, the County has \$470,000 in outstanding offers of loans and/or grants that have been extended to various companies under its Economic Development Fund programs. To help fund such offers, the designated fund balance of the Economic Development Special Revenue Fund at the end of the year is typically reappropriated in the following year.

C) **Subsequent Events**

On July 8, 2003, the County Council introduced, and subsequently approved, legislation to increase the level of authorized general obligation bond principal by an additional \$118,600,000, effective November 6, 2003.

Commercial paper bond anticipation notes (BANs) amounting to \$75,000,000 were issued on December 1, 2003.

The County issued \$49,505,000 in general obligation refunding bonds on May 1, 2003, the proceeds of which, along with premium and accrued interest, will refund \$51,905,000 in outstanding general obligation bonds. The bonds were delivered on July 3, 2003. After adjustments, the true interest cost to the County was 2.29 percent and savings of over \$4.2 million will be realized, primarily in fiscal years 2004 and 2005.

D) **Joint Ventures**

The Primary Government participates in six joint ventures which are not included as part of the reporting entity. The Primary Government does not have a separable financial interest in any of the joint ventures. Therefore, no "Investment in Joint Ventures" is included in the accompanying financial statements. Audited financial statements are available from each of the six organizations. A general description of each joint venture follows:

Maryland-National Capital Park and Planning Commission (M-NCPPC)

M-NCPPC is a body corporate of the State of Maryland established by the Maryland General Assembly in 1927. M-NCPPC is a bi-county agency. The Board of Commissioners consists of ten members, five each from Montgomery and Prince George's Counties. The Montgomery County members are appointed by the County Council with the approval of the County Executive. The counties' oversight of M-NCPPC also includes budget approval over their respective shares of the operating and capital budgets. Each county is also required by law to guarantee the general obligation bonds of M-NCPPC issued for its jurisdiction.

At June 30, 2003, M-NCPPC had outstanding notes payable and bonds payable in the amount of \$170,268,258, of which \$10,851,668 was self-supporting. Of the total amount payable, \$13,656,711 represented debt due within one year. Generally, debt of M-NCPPC is payable from its resources; however, the participating counties must guarantee payment of interest and principal on the debt that is not self-supporting. Montgomery County's contingent liability for non self-supporting M-NCPPC debt at June 30, 2003, is \$41,616,590, which represents general obligation bonds outstanding for the Montgomery County jurisdiction at year-end.

Washington Suburban Sanitary Commission (WSSC)

WSSC is a bi-county instrumentality of the State of Maryland created to provide water supply and sewage disposal services for Montgomery and Prince George's Counties. The two participating counties share equal control over WSSC in the selection of the six-member governing body, budgeting authority, and financing responsibility.

At June 30, 2003, WSSC had outstanding notes payable and bonds payable in the amount of \$1,481,675,341, of which \$1,475,185,341 was self-supporting. Of the total amount payable, \$218,532,000 represented debt due within one year. Pursuant to Section 4-101 of Article 29 of the Annotated Code of Maryland, the County must guarantee payment of principal and interest on WSSC bonds, unless WSSC waives such guarantee requirement in accordance with Section 4-103 of Article 29. WSSC has waived such guarantee requirement with respect to all outstanding WSSC bonds. At June 30, 2003, all WSSC debt relating to the County is self-supporting.

Washington Suburban Transit Commission (WSTC)

The Washington Suburban Transit District (WSTD), encompassing Prince George's and Montgomery Counties, Maryland, was chartered by the State of Maryland in 1965 to, among other things, coordinate and participate in the formulation of the transit plan of the Washington Metropolitan Area Transit Authority for WSTD. The WSTD is governed by the WSTC, which is composed of three representatives each from Prince George's and Montgomery Counties and one representative from the Maryland Department of Transportation. One commissioner from each county is appointed by the Governor of the State of Maryland, and the other two commissioners are appointed by the chief executive officer of the organizations they represent. The two participating counties have equal budgetary authority and financial responsibility for WSTC; however, both are required to act in consultation with the State Department of Transportation. WSTC's liabilities are limited to funds payable from the participating counties and the State under outstanding grant agreements and State legislation. Montgomery County made an operating contribution totaling \$67,832 to WSTC during FY03. The FY03 WSTC Annual Financial Report was not available when this report was published.

Washington Metropolitan Area Transit Authority (WMATA)

WMATA was created in 1967 by interstate compact among the states of Maryland and Virginia and the District of Columbia. WMATA's primary function is to plan, develop, finance, and operate transit facilities serving the Washington metropolitan area. The governing authority of WMATA is a twelve-member Board of Directors. Maryland, Virginia, and the District of Columbia each appoint four directors. Of Maryland's four directors, two are appointed by the Governor of the State of Maryland, and one each is appointed by the respective county from among its appointees to WSTC. Since WSTC is a joint venture of Montgomery and Prince George's Counties, Montgomery County participates in WMATA through WSTC.

Montgomery County is committed to participation in WMATA and its regional Metro Rapid Rail and Metro Bus programs. Pursuant to Section 87-13 of the County Code, the County guarantees its obligations imposed on WSTD by contracts or agreements with WMATA. As a result of State legislation, the State of Maryland is required to fund 100 percent of the County's share of rail and bus operating expenses. In addition, the State is required to fund 100 percent of the annual debt service on revenue bonds issued by WMATA in connection with the construction of the Metro Rapid Rail System. The County's share of the cost of construction of the Metro Rapid Rail System has been totally assumed by the State. In addition, State legislation mandates, effective in FY00, that the State provides 100 percent of the County's share of WMATA capital equipment replacement costs.

Under State statutes, the State of Maryland is required to cover 100 percent of the combined operating deficit of WMATA and County Ride-On operations assuming that 40 percent (effective in FY01) of gross operating costs are recovered by revenues. The 40 percent criteria will revert to 50 percent effective in FY05 unless permanently set at 40 percent by the State legislature prior to FY05.

A summary reflecting WMATA's expenditures incurred for the County's share of WMATA's activities for FY03, which are fully funded by the State and not reflected in the accompanying financial statements, is as follows:

| | |
|--|----------------------|
| Bus operating subsidy | \$ 24,696,792 |
| Rail operating subsidy | 26,247,047 |
| ADA Service | 10,116,434 |
| Metrobus and Metrorail capital replacement | 28,624,828 |
| Debt service on WMATA revenue bonds | 4,867,500 |
| Local bus program | 28,127,005 |
| Total | <u>\$122,679,606</u> |

At June 30, 2003, WMATA had outstanding debt of \$216,384,000, of which \$16,415,000 represented debt due within one year. All of this debt is payable from resources of WMATA.

Metropolitan Washington Council of Governments (COG)

COG is a multi-governmental organization in which local governments unite to solve area-wide problems. The County is a participant in COG along with other Washington metropolitan area governments. The governing body of COG is a Board of Directors. Each participating governmental unit is allotted chairs on the Board in accordance with a specified population formula. Budgetary authority rests with the Board. Member dues finance approximately 20 percent of the total funding for COG, with state and Federal grants and private contributions providing the remainder. COG does not utilize debt financing. As a participating government in COG, the County paid FY03 membership dues amounting to \$615,689.

Northeast Maryland Waste Disposal Authority (NEMWDA)

NEMWDA is a body politic and corporate and a public instrumentality of the State of Maryland. NEMWDA was established to assist the political subdivisions in the Northeast Maryland Region and the private sector in waste management and the development of waste disposal facilities adequate to accommodate the region's requirements for disposal of solid waste. NEMWDA has the following seven member jurisdictions from the State of Maryland: Montgomery County, Baltimore County, Anne Arundel County, Harford County, Howard County, Carroll County, and City of Baltimore. The Maryland Environmental Service is an ex-officio member.

NEMWDA issued bonds in 1993 to fund the construction of the Montgomery County Resource Recovery Project (Project). In April 2003, the Authority refinanced \$205,078,908 of the 1993 bonds. At June 30, 2003, NEMWDA had outstanding bonds payable in the amount of \$303,910,000, of which \$13,880,000 represented debt due within one year. All of these outstanding bonds are related to this Project and are limited obligations of NEMWDA, payable solely from the Project revenues and other sources. Since the Project is owned and operated by NEMWDA, the bonds and related activities are included in the financial statements of NEMWDA.

This Project became operational in August 1995. NEMWDA has entered into a service contract with the County under which the County pays a waste disposal fee calculated in accordance with the agreement. The waste disposal fee is comprised of an amount equal to debt service, facility fees, alternative disposal costs, NEMWDA administrative costs, operating costs, and NEMWDA component revenue. Waste disposal fee expense incurred by the Solid Waste Disposal and Collection Enterprise Fund during FY03 amounted to \$42,706,420.

E) Employee Benefits

1) Deferred Compensation

Employees of the County may participate in the Montgomery County Deferred Compensation Plan (the Plan). The purpose of the Plan is to extend to employees a deferred compensation plan pursuant to Section 457 of the Internal Revenue Code of 1986, as amended. During FY99, in accordance with Federal legislation, the assets of the Plan were placed in trust for the sole benefit of participants and their beneficiaries. Trust responsibilities were assigned to the Board of Investment Trustees. The Plan therefore is accounted for and included in the accompanying financial statements as a pension and other employee benefit trust fund. Under the Plan, contributions are sent to contracted investment vendors for different types of investments as selected by participants. A separate account, which reflects the monies deferred, the investment of the monies, and related investment earnings, is maintained for each participant. Withdrawals are made upon retirement, termination of employment, death, and/or in unforeseeable emergencies. Administrative expenses, which are not significant to the Plan, have been paid by the General Fund.

2) Annual, Sick Leave, and Other Compensated Absences

Employees of the County earn annual, compensatory, and sick leave in varying amounts. Employees who are part of the County Management Leadership Service and participate in the Retirement Savings Plan earn only Paid Time Off (PTO) leave. In the event of termination, employees are reimbursed for accumulated annual, PTO (where applicable), and compensatory leave (up to a limit if applicable). Under the Employees' Retirement System of Montgomery County, covered employees are given credited service toward retirement benefits for accumulated sick leave at retirement. Earned but unused annual, PTO, and compensatory leave is accounted for in the proprietary funds as a liability. The liability for unused annual, PTO, and compensatory leave payable from governmental fund types is reflected only at the government-wide level because it will be paid from future periods' resources. Liabilities for compensated absences have not been recorded in governmental funds since the portion expected to be liquidated with expendable available financial resources has been determined to be immaterial. Sick leave earned but not taken by June 30, 2003, totaling 4,883,062 hours approximates \$156,469,106 based on the salary scale in effect at that date. Earned but unused sick leave is not recorded as a liability because upon termination, sick leave is not paid. Sick leave is paid only in the event of employee illness, at which time the payments will be made from current resources.

3) Group Insurance Benefits

The County provides comprehensive group insurance programs to its employees. These benefits include, but are not limited to, medical, dental, and vision benefits, long-term disability, term life, and accidental death and dismemberment insurance. The cost of each insurance program is shared between the employer and the employees. During FY03, the County and its employees contributed \$50,397,821 and 13,791,665, respectively. Employees of MCRA, HOC, and BUPI participate in the comprehensive insurance program of the County. Employer contributions totaled \$234,281, \$2,320,065, and \$32,594 for these component units, respectively, for FY03.

4) Postemployment Benefits

In addition to the pension benefits described in Note IV-F, the County, by authority of various Montgomery County Council resolutions, provides certain postemployment health and life insurance benefits to all employees who retire under the Employees' Retirement System and the Employees' Retirement Savings Plan. Prior to 1987, the County plan offered retirees the opportunity to contribute 20 percent toward the cost of group insurance benefits, with the County contributing 80 percent of the cost. Under this arrangement, the County contribution continues for a length of time equal to the time the retiree was eligible for group insurance with the County. After that, the individual is required to pay the full cost of the insurance. All employees hired after January 1, 1987, are covered by a different cost sharing arrangement. Under this plan, the County's contribution to group insurance ranges from 50 percent to 70 percent depending on the employees' years of eligibility under the County's group insurance program. Under this arrangement, employees have a lifetime insurance cost share. Currently, 3,900 retirees meet those eligibility requirements for postemployment benefits.

Postemployment benefits, accounted for in the Employee Health Benefits Self-Insurance Internal Service Fund, are funded by an appropriation in a non-departmental account of the General Fund, dividends, and pre-funded contributions from active employees. Expenses are recognized as retirees report claims, with an amount included to provide for incurred but not reported claims. The employer contributions were \$13,970,000 for FY03; retired employee contributions were \$6,390,248.

F) Pension Plan Obligations

1) Defined Benefit Pension Plan

Plan Description - The Employees' Retirement System of Montgomery County (System) is a cost-sharing multiple-employer defined benefit pension plan sponsored by the County. Other agencies and political subdivisions have the right to elect participation.

The Board of Investment Trustees (Board) has the exclusive authority to manage the assets of the System. The Board consists of nine trustees and functions as part of the County. A publicly available annual report that includes financial statements and required supplementary information for the System, the Defined Contribution Plan (see Note IV-F2), and the Deferred Compensation Plan (see Note IV-E1), can be obtained by writing the Board of Investment Trustees, Montgomery County Government, 11 N. Washington Street, Rockville, Maryland 20850.

This Plan is closed to employees hired on or after October 1, 1994, except public safety bargaining unit employees. Substantially all employees hired prior to October 1, 1994, of the County, the Montgomery County Revenue Authority, the Housing Opportunities Commission of Montgomery County, the independent fire/rescue corporations, the Town of Chevy Chase, the Strathmore Hall Foundation, Inc., the Washington Suburban Transit Commission, certain employees of the State Department of Assessments and Taxation, and the District Court of Maryland are provided retirement benefits under the System. The System, established under Chapter 33 of Montgomery County Code, 2001, as amended, is a contributory plan with employees contributing a percentage of their base annual salary, depending on their group classification which determines retirement eligibility.

Benefit provisions are established under the Montgomery County Code beginning with Section 33-35. All benefits vest at five years of service. There are different retirement groups and retirement membership classes within the System. Members enrolled before July 1, 1978, belong to either the optional non-integrated group or the optional integrated group. Members enrolled on or after July 1, 1978, belong to the mandatory integrated group. Within the groups are different retirement membership classes. The retirement class assigned depends upon the job classification of the member (i.e., non public safety, police, fire, sheriffs and correctional staff). Normal and early retirement eligibility, the formula for determining the amount of benefit, and the cost of living adjustment varies depending upon the retirement group and retirement membership class. Normal retirement is a percentage of earnings multiplied by years of credited service. Earnings for optional non-integrated group members and optional integrated group members is defined as the high 12 months and for mandatory integrated group members, the high 36 months. The percentage of earnings, the maximum years of credited service and the cost of living adjustment varies depending upon the retirement membership class and group.

Members who retire early receive normal retirement benefits reduced by a minimum of 2 percent to a maximum of 60 percent depending on the number of years early retirement precedes normal retirement. Disability benefits are contingent upon service-connected or nonservice-connected occurrences and total or partial permanent disablement. Death benefits are contingent upon service-connected or nonservice-connected occurrences. Effective July 1, 1989, when a member terminates employment before his retirement date and after completion of five years of credited service, he may elect to leave his member contributions in the System and receive a pension upon reaching his normal retirement date, based on the amount of his normal retirement pension that has accrued to the date of termination. Vested benefits and eligibility requirements are described under Section 33-45 of the Montgomery County Code of 2001, as amended. A member who terminates employment prior to five years of credited service is refunded his accumulated contributions with interest.

Deferred Retirement Option (DROP) Plans, established in FY00, allow any employee who is a member of a specified membership class or bargaining unit, and who meets certain eligibility requirements, to elect to “retire” but continue to work for a specified time period, during which pension payments are deferred. When the member’s participation in the DROP Plan ends, the member must stop working for the County, draw a pension benefit based on the member’s credited service and earnings as of the date that the member began to participate in the DROP Plan, and receive the value of the DROP Plan payoff. During FY03, total disbursements under these DROP Plans amounted to \$5,785,024.

Derivatives - At June 30, 2003, direct investments in derivatives represented 1 percent of the total fair value of the System’s portfolio. In addition, the System has indirect exposure to market and credit risk through its ownership interests in certain mutual funds which hold derivative financial instruments.

Concentrations – The System does not have any investments (other than U.S. Government and U.S. Government guaranteed obligations) in any one organization that represent 5 percent or more of net assets held in trust for pension benefits.

Funding Policy - Required employee contribution rates varying from 4 to 8.5 percent of regular earnings are fixed and specified under Section 33-39 (a) of the Montgomery County Code of 2001, as amended. The County and each participating agency are required to contribute the remaining amounts necessary to fund the System, using the actuarial basis as specified in Section 33-40 of the Montgomery County Code of 2001, as amended. Under the current procedures, an actuarial valuation

is performed to determine the employer contribution rate for the System. The contribution rate developed is a percentage of active member payroll. The dollar amount of each year's employer contribution is determined by applying the contribution rate to the actual payroll for each year. Funding of the System during the period is the sum of the normal costs and amortization of the unfunded accrued liability over a forty-year period.

Annual Pension Cost and Net Pension Obligation - The annual required contributions (ARC) for FY03 were based on an actuarial valuation as of June 30, 2001, the latest valuation available on the date the County Council was required to approve the appropriation resolution. The ARC, or annual pension cost (APC), were the same as contributions actually made. The APC and the net pension obligation (NPO) of the County and the participating agencies and political subdivisions for FY03 were as follows:

| Fiscal Year | APC | Percentage of APC | | | NPO |
|----------------|---------------|----------------------|---|----|-----|
| | | Contributed | | | |
| 2001 | \$ 43,345,296 | 100 | % | \$ | - |
| 2002 | 39,168,622 | 100 | | | - |
| 2003 | 55,205,855 | 100 | | | - |

Allocated Insurance Contract - On August 1, 1986, the County entered into an agreement with Aetna Life Insurance Company (Aetna) wherein Aetna accepted future responsibility for monthly payments to all members retired prior to January 1, 1986, in exchange for a lump sum payment. The County is liable for cost of living increases effective January 1, 1986, and later. The transactions related to this agreement have not been recognized in the System's financial statements.

2) **Defined Contribution Plan**

Plan Description - Employees' Retirement Savings Plan (Plan) is a cost-sharing multiple-employer defined contribution plan established by the County under Chapter 33 of the County Code. Other agencies or political subdivisions have the right to elect participation. All non-public safety and certain public safety employees not represented by a collective bargaining agreement and hired on or after October 1, 1994, are covered under this Plan. In addition to the County, other participant agencies include the Montgomery County Revenue Authority, the Housing Opportunities Commission of Montgomery County, the independent fire/rescue corporations, the Town of Chevy Chase, the Strathmore Hall Foundation, Inc., and the Washington Suburban Transit Commission. Employees covered under the defined benefit plan may make an irrevocable decision to move into this Plan, provided they are unrepresented employees, or represented by a collective bargaining agreement that allows for participation in this Plan.

Under this Plan, employees contribute 3 percent of regular earnings up to Social Security wage base and 6 percent above Social Security wage base. The employer contributes 6 percent and 10 percent of regular earnings for non-public safety and public safety employees, respectively. Employee contributions are always vested under this Plan and employer contributions are vested after 3 years of service or upon death, disability, or retirement age of the employee. Members are fully vested upon reaching normal retirement age (62) regardless of years of service. At separation, a participant's benefit is determined based upon the account balance which includes contributions and investment gains or losses. The Board of Investment Trustees monitors the Plan and offers investment options to the participating employees. Required employer and employee contributions made to this Plan for FY03 were \$6,798,553 and \$3,750,518, respectively.

3) Other

The County contributed \$698,603 during FY03 for pension costs for a limited number of employees/retirees who elected to remain in the State plan. This amount includes the current service costs plus an amount sufficient to amortize the prior service cost over a forty-year period ending June 30, 2020.

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* POEB = Pension and Other Employee Benefit